Electricity Settlements Company

Annual Report and Accounts for Electricity Settlements Company Ltd

2019/20

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Company registration number: 08961281

Our vision...
is to be at the heart of the delivery of the UK's goals for secure, affordable and sustainable energy.

ESC's Guiding Principle is **to maintain market participants' confidence** in the Capacity Market settlement process and **minimise costs to consumers.**[1]

Our mission is **to implement and develop** electricity market schemes by providing **independent expertise, insight and leadership.**

Electricity Settlements Company (ESC) is an operationally independent, not-for-profit private company wholly owned by the Secretary of State for Business, Energy and Industrial Strategy (BEIS). The company carries out the key role of **Capacity Market Settlement Body**, supporting the delivery of the government's objective of "ensuring that the country can deliver its goal to provide reliable, low cost and clean energy system"[2].

As Capacity Market Settlement Body, ESC is responsible for managing all financial transactions and associated assurances under the Capacity Market scheme, such as credit cover; meter assurance; penalties; and payments to capacity providers.

"The Capacity Market is designed to use competition to achieve a defined level of electricity security in Great Britain at the lowest cost to consumers."[3]

[1] ESC Framework Document available at https://lowcarboncontracts.uk/corporate-governance

[2] BEIS Single Departmental Plan, updated 27 June 2019: https://www.gov.uk/government/publications/department-for-business-energy-and-industrial-strategy-single-departmental-plan/department-for-business-energy-and-industrial-strategy-single-departmental-plan-june-2019

[3] BEIS Publication: "Capacity Market Consultation – Improving the Framework", published December 2017: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/664272/capacity-market-consultation-improving-framework-response.pdf

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Highlights for 2019/20

Capacity Market scheme delivery

Delivering Excellence

Managed the successful restart of the Capacity Market[4]

paying over £1bn to Capacity Providers in full in January 2020 for meeting their Standstill Period obligations[5]

60 components tested

by the deadline for Capacity Market units that did not have pre-approved metering solutions

Ten significant process or system changes to our settlement operations

to align with amended Capacity Market rules and improve performance

Developing as a Centre of Expertise

Published new Capacity Market dashboards

with downloadable data in support of the aims of the Energy Data Taskforce

Published scheme information pages

explaining how the Capacity Market works and how it is performing

Developed detailed guidance for Capacity Market restoration

published in August 2019

Acting as a Trusted Advisor

Advising BEIS on regulatory change

to improve our ability to detect fraud and error in settlement

Engaging with Ofgem on the establishment of a Capacity Market Advisory Group

to improve how Rules changes are impact assessed

Advising BEIS on Capacity Market Standstill Regulations

to manage the period following the annulment of the State aid clearance

[4] Arrangements to restart the Capacity Market following State aid re-approval by the European Commission.

[5] The Capacity Market Standstill Period ran from 15 November 2018 until 25 October 2019.

Chair's foreword

Having recently taken on the role of Chair of ESC in September 2019, I would like to thank my colleague Jim Keohane who acted as Interim Chair from 1 October 2018 to 1 September 2019 – to him, our other board colleagues and the ESC team should go the credit of the achievements set out in this, our sixth annual report. Supported by a dedicated and committed board, the expert professional team at ESC have played a critical role in the delivery of the UK's energy transition over the past five years. We are now ready for the step change that is needed to support the new ambitious target of Net Zero by 2050.

Experts in scheme delivery and development

During 2019 the key role the company plays in maintaining investor confidence in the Capacity Market was brought into the foreground, as the delivery of the Capacity Market was impacted by a legal challenge to the State aid clearance of the scheme. The first half of the year was focused on preparations for the re-start of the scheme, without full certainty that this would occur nor when. Constant communication with the industry was key to gaining confidence in our preparations. Following a positive State aid decision in October 2019, the tenacity of the team in working closely with electricity suppliers enabled ESC to successfully pay all Capacity Providers on time and in full by the end of January 2020.

At the same time the company provided independent expertise and insight to the government in the development and delivery of schemes. Our Capacity Market experts have shared their deep experience to support government, the regulator and industry to develop administrative, or in some cases, regulatory solutions to problems and challenges. The company has also been quick to embrace sectoral initiatives like the Energy Data Taskforce, launching scheme dashboards online in the latter half of the year and working with the Energy Systems Catapult on the publication of raw data.

As we enter 2020/21 everyone is dealing with the impacts of the global Covid-19 outbreak. For ESC this is a real test of our IT infrastructure, but it represents an even greater challenge for our stakeholders, especially electricity suppliers and generators. We are engaging closely with them and will continue to support them to understand and manage the impacts on their businesses as the situation unfolds.

Powering Net Zero

Looking to the future, we want to step up to the challenge of supporting Net Zero. As the UK looks ahead to hosting the next UN Climate Change Conference (CoP 26) in 2021, we have an opportunity to drive up ambition to address climate change globally and demonstrate leadership by showcasing our decarbonisation industries. Part of that is the significant strides we have made in the decarbonisation of the electricity sector over the last ten years – with Electricity Market Reform playing a crucial role, but the scale of the challenge ahead is undiminished.

The Capacity Market supports decarbonisation by guaranteeing security of supply as we transition to a low carbon system. This year onshore wind became eligible for the scheme, with around 177MW of installed capacity securing agreements. ESC's part in this is to maintain investor confidence in the Capacity Market and at the same time explore how we can help meet future challenges. Given the scale of investment required in the UK alone and the increasing appetite of global investors for climate secure investments, the opportunity is clear. What has worked for electricity could provide a starting point for incentivising and attracting investment into the decarbonisation of other sectors. ESC will engage positively with policymakers, regulators, investors and industry during 2020/21 so we can play our part in finding solutions.

Regina Finn
Chair

Chief Executive's statement

I am very conscious of the crucial role ESC is playing in the transition to a Net Zero economy by 2050. The Capacity Market is providing reliability as our electricity system decarbonises, and has recently opened to renewable generators, enabling 177GW of new low carbon capacity to secure 15-year agreements in March 2020. I am in no doubt that ESC's independent delivery expertise has been crucial over the last 12 months – in the face of the previous State aid challenge we remained focused on our guiding principle of maintaining confidence in the Capacity Market and minimising costs to consumers.

Whilst most of our external engagement is focused on industry participants, our policy and regulatory stakeholders have told us that we are becoming increasingly important and trusted advisors – this is encouraging, given that we set ourselves a goal to achieve this by March 2021. One thing we can be certain of is that the next two years will see significantly more change than the last two years for the Capacity Market and the energy market as a whole. Our ability to evolve with the market and provide valuable insights to it will only become more important over time.

Delivering excellence

After spending most of the first half of the financial year preparing new processes and guidance for the end of the Standstill Period as well as changes to the settlement systems, we succeeded in successfully restarting the Capacity Market in October 2019, following a positive State aid decision from the European Commission. Our proactivity with suppliers enabled us to collect sufficient funds – over £1bn during the course of a few weeks and over 99% of the invoiced amount, minimising mutualisation – to pay Capacity Providers' Standstill Period payments on time and in full in January this year. Illustrating the impact of this, Capacity Market supplier charge income increased to £1.5bn this year (2018/19: £176m), which includes £987m of deferred payments relating to Delivery Year 2018/19. This work was a fantastic example of cross team and cross organisation working by the various parties involved, leading to positive feedback from capacity providers, with 78% of those who responded to our survey viewing ESC as experts in scheme delivery.

In parallel we started payments as usual for Delivery Year 2019/20 and preparations for the first set of Capacity Auctions to include renewable generating capacity. This is a landmark development in the scheme that is expected, despite significant de-rating factors being applied, to have a significant impact on the number of small, renewable projects that can move forward on a merchant basis. It will be interesting to see whether or not the recent proposal to run an auction for established renewables as part of CFD Allocation Round 4 will have any impact on the behaviour of renewable Capacity Providers. Our resource sharing arrangement with LCCC means we are well-placed to understand interactions across the schemes and I expect that we will be supporting BEIS in exploring these going forward.

During 2019/20, in addition to the inclusion of renewable generation, we also implemented ten BEIS and Ofgem changes to the Capacity Market scheme (see page 8). We also took steps to manage interfaces between the settlement of the Capacity Market and other changes taking place in the market – for example processing exemptions from our charges for storage providers and preparing for market-wise half-hourly settlement.

Towards the end of the financial year we found ourselves having to adapt to the repercussions of the global Covid-19 outbreak, moving our entire operations to home-working and increasing appropriate information sharing and engagement with BEIS and the regulator, Ofgem, to monitor impacts on generators and suppliers. Implementation of our Business Continuity Plan has been critical to maintaining our performance during this period. As the situation continues to develop, we can expect impacts on suppliers as a result of changes in patterns of electricity demand and possibly some challenges for some Demand Side Response services.

All this vital work has been achieved whilst maintaining strong financial management and keeping within our agreed budget – ESC's annual net operating expenditure was £7.0m (2018/19: £7.2m), compared to the pre-approved budget of £7.6m (2018/19: £7.6m).

Providing expert advice

Throughout this year we have been taking steps to become more agile in the delivery of our vital Capacity Market functions and ensure that we have the right analytical and data processing skills to interpret scheme data and use insights to understand opportunities for improvement. We have also made significant progress in publishing more scheme information on our website for the Capacity Market, in formats that can be more easily interpreted. An area of ongoing dialogue with Delivery Partners, is how we can collectively improve accuracy and transparency of Capacity Market data, in support of the goals of the Energy Data Taskforce. We are in discussions with BEIS and Ofgem to soften the restrictions currently in place between ESO and ESC preventing data access, and are keen to see open data principles that will benefit all parties including delivery partners, capacity providers and the consumer, in particular in relation to the mitigation of fraud and error.

Nevertheless, we have made some progress in the development of insights, which has enabled us to bring our expertise to the table to support the government's work on the Capacity Market five-year review and engage with thinking around future market design, including participating in the 'Re-costing Energy' project. It also plays a key role in raising our sights beyond our immediate change programme, to ensure that, at the very least, we do not stand in the way of the ongoing regulator and industry-driven reforms in the wider market, and at the best, we anticipate how we may need to evolve to support the future model as it emerges.

Building on strong foundations

Looking back, it has been a challenging year, but we have proven we can respond effectively to unforeseen events. Relationships have been deepened and trust has been developed that will serve us well in the years ahead, as the pace for delivering the government's ambition ramps up and we engage in earnest on the change programme going forward. I remain committed to ensuring that we continue to provide certainty for investors in the electricity market and that we can confidently manage the interface between generation, supply and market operation during the changes ahead.

Neil McDermott
Chief Executive

Corporate report

Our role in delivering affordable, reliable and clean electricity

- ESC is the **Capacity Market Settlement Body** responsible for **managing all financial transactions** and associated assurances under the Capacity Market scheme, such as credit cover; meter assurance; penalties; and payments to Capacity Providers. During the Standstill Period this included operating the Voluntary Supplier Arrangement and preparing for Capacity Market restart.
- ESC **maintains market participants' confidence** in the Capacity Market settlement process by providing guidance and communicating regularly through bulletins and via our dedicated settlement portal.

Key outcomes in 2019/20

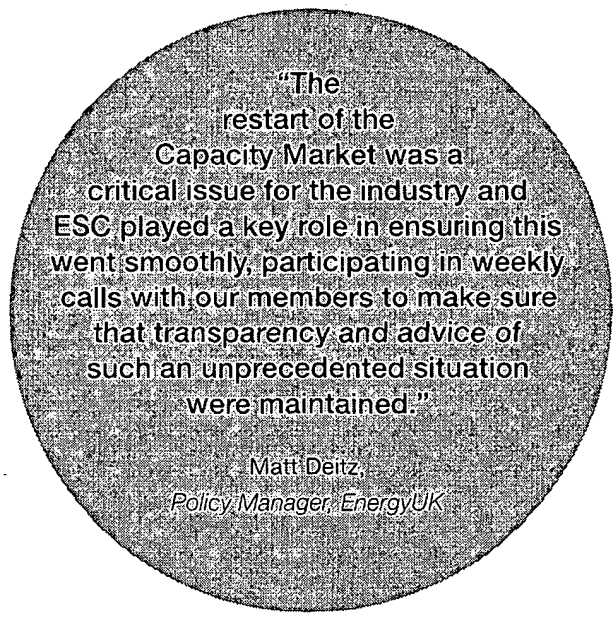
Capacity Market settlement outcomes[6]	Total payments made by ESC to Capacity Providers	Total annual cost (including ESC settlement (i.e. operational) cost levy)	Operational costs as a percentage of total annual cost
Capacity payments made to 53.4GW of capacity for Delivery Year 2018/19 and 49.0GW for Delivery Year 2019/20	£987.3m (for Delivery Year 2018/19)[7] £496.0m for Delivery Year 2019/20 from October 2019 to March 2020)[7]	£1,490.3m	0.5%

[6] Figures may not reconcile due to rounding.
[7] A Capacity Market Delivery Year runs from 1 October to 30 September the following year. Payments to available capacity were suspended on 15 November 2018 following the ECJ ruling annulling State aid approval for the Capacity Market, pending a further investigation by the European Commission. Deferred payments for the Standstill Period were made to Capacity Providers in January 2020, covering the Delivery Year 18/19 (for capacity available between October 2018 to September 2019).

Delivery Excellence

Capacity Market restart

Following the State aid re-approval of the Capacity Market by the European Commission in October 2019, and in accordance with the Capacity Market rules and regulations, we delivered meter tests for 60 components during 2019/20 and, in the period from November 2019, made payments of £496m in exchange for 49.0GW of reliable capacity to be made available to National Grid as System Operator for the Delivery Year 2019/20. In addition, in January 2020, after months of continual engagement with suppliers to ensure we were able to collect the required funds, approximately £1bn of deferred capacity payments were paid for Delivery Year 2018/19 to Capacity Providers who were available during the Standstill Period, as required under the Standstill Regulations[8]. The restart of the Capacity Market was a major concern for the electricity sector and we have received praise for our role in ensuring that funds were available as soon as possible to make deferred payments.



Managing the impacts of Covid-19

Following the restrictions put in place in March 2020 as a result of the Covid-19 outbreak, we successfully implemented our Business Continuity Plan and have managed to maintain performance in all areas of our business with 100% of our employees working remotely and able to continue to collaborate successfully using Sharepoint and online meeting applications, supported by the cloud environment. We also reached out to the regulator, Ofgem and BEIS to understand the potential impacts on electricity suppliers and capacity providers. We expect that many suppliers will be facing significant uncertainty regarding their future revenues during this time, as demand patterns shift, and will be working to ensure that BEIS and Ofgem have the appropriate Capacity Market information they need to feed into their wider assessment of all of the costs suppliers are facing over the coming months. We are also working with BEIS to determine whether and where Capacity Providers may need flexibility going forward and have supported the work on BEIS's recent consultation on easements to Capacity Market regulations.

[8] http://www.legislation.gov.uk/uksi/2019/862/contents/made

Change delivery

Over the course of the year we delivered 22 system, process and service improvement changes. Ten of these implemented Capacity Market policy and regulatory or rule changes. In addition, we have supported ESO software releases and delivered all changes arising as a consequence of Balancing & Settlement Code (BSC) changes which have impacted our settlement systems. We have also undertaken preparatory work in support of the ESO EMR portal upgrade, which will be undergoing development during 2020/21.

Regulatory system and process changes for Capacity Market

The changes relating to the Capacity Market restart have been focused on functionality pertaining to the T-3 Capacity Auction, facilitating new data interactions with the ESO, and functionality required to calculate the Standstill Period supplier charges. We have also delivered the functionality needed to make the Standstill Period capacity payments, mutualisations and reconciliations.

Other Capacity Market changes included those required to enable 'Component Reallocation' and the introduction of 'Relevant Benefit' functionality. We have also implemented adjustments to data inputs due to the Trans European Replacement Reserves Exchange (TERRE) project (BSC Modification P344) and Applicable Balancing Services Volume Data (ABSVD) changes (BSC Modification P354) which affected Capacity Market operations.

Service Improvements changes for Capacity Market:

Our work has included looking at the Voluntary Supplier Arrangement to support the Capacity Market during the Standstill Period (including additional fraud checks) and adding confirmation/processing information to Capacity Market Volume Reallocation Notices (CMVRN) trade file submissions. We have also implemented transparency improvements to the Capacity Volume Register in response to stakeholder feedback.

Operational efficiency and risk mitigations via system enhancements:

As part of our work we have been implementing enhancements to System User Interface management and system audit reporting as well as various updates to cross system password policies and new and improved change process for more efficient change management. During the year our settlement agent, EMRS, made major headway towards upgrading its software for both financial and service desk functions.

Centre of Expertise

Improving industry understanding of the Capacity Market

This year we have taken a considerable step forward in publishing new scheme dashboards[9], which contain live Capacity Market data. This has enabled our stakeholders to view the performance of the Capacity Market via our website, for example how many Capacity Agreements we are settling.

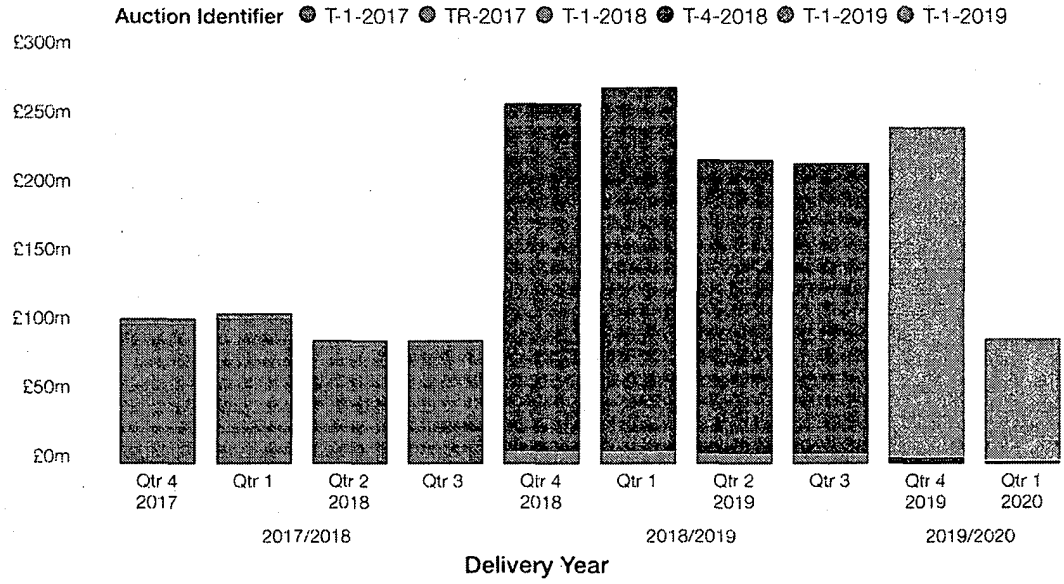
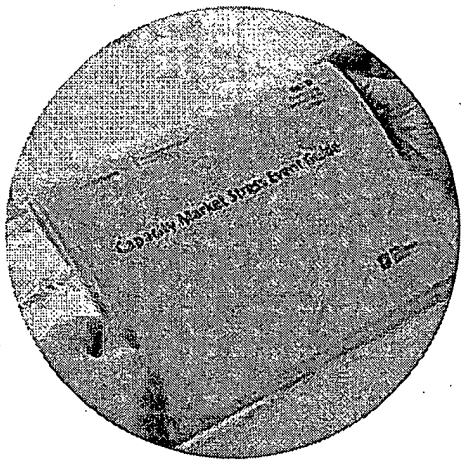


Figure 1: Snapshot of one of our dashboards from www.lowcarboncontracts.uk/dashboards

Sharing our knowledge

Throughout the year we trained new staff in BEIS and the ESO continued to develop our online guidance, including publishing comprehensive guidance for electricity suppliers to help them prepare for the restart of the Capacity Market and updated Capacity Market Stress Event guidance.



[9] https://www.lowcarboncontracts.uk/dashboards

Engaging with our Capacity Market stakeholders

Our annual stakeholder event in November 2019 took place shortly after the State aid re-approval of the Capacity Market following a 12-month Standstill Period. Our people were on hand to reassure participants, explaining to Capacity Providers and electricity suppliers how the restart would work, including the timing and scale of invoices for the Standstill Period and when Capacity Providers would get paid. This was just one event in an extensive communications exercise that enabled ESC to successfully collect the necessary funds and issue all deferred capacity payments in January 2020.

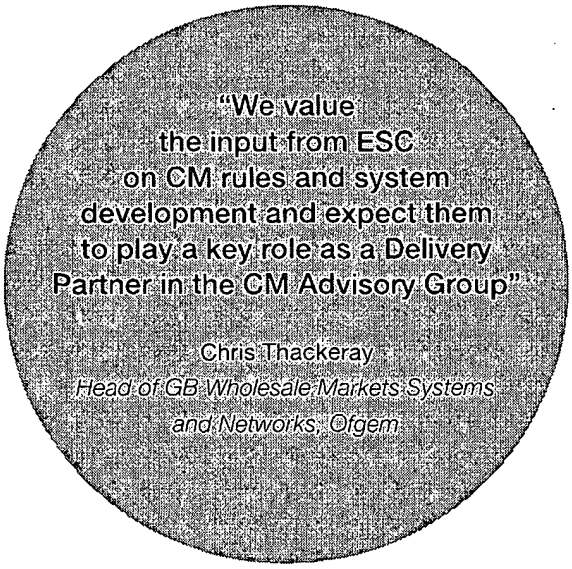
LCCC people engaging with Capacity Market stakeholders

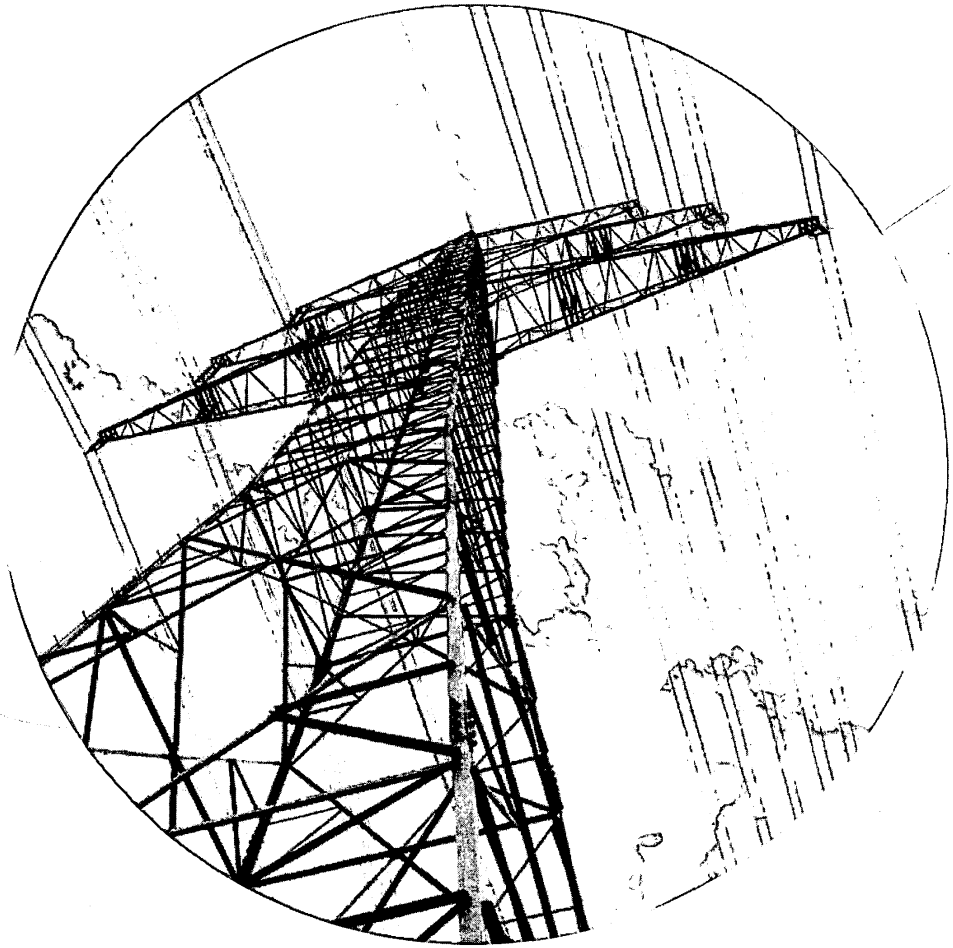
Trusted Advisor

Supporting scheme development

We have continued to share our knowledge of the Capacity Market with the BEIS policy team, working on changes to the scheme collaboratively and through our membership of the Capacity Market Policy Board.

We have worked closely with Ofgem to improve the annual Capacity Market process for determining which industry change proposals to progress, in particular co-chairing the Capacity Market Regulatory Change Advisory Board focused on the implementation of proposals and advocating for industry expert involvement alongside Delivery Partners in the sifting and impact assessment of proposals.





Environment report

The company does not have any employees and its role is performed by LCCC on its behalf. The company accordingly does not itself have any direct Scope 1, Scope 2, or Scope 3 emissions. The company is, however, committed to ensuring its sustainability objectives and works closely with LCCC in relation to environmental matters. Reference is made to the environment report in the LCCC annual report for further details.

Strategic report

ESC plays an integral role in the implementation of the Capacity Market scheme by delivering the credit cover, meter assurance, levy collection and settlement functions required for the operation of the Capacity Market. The Capacity Market was introduced by the government in August 2014 with the aim of ensuring security of supply in future years while minimising the cost to consumers. The principal activities of the company are described further in the Corporate Report.

Performance against Strategy

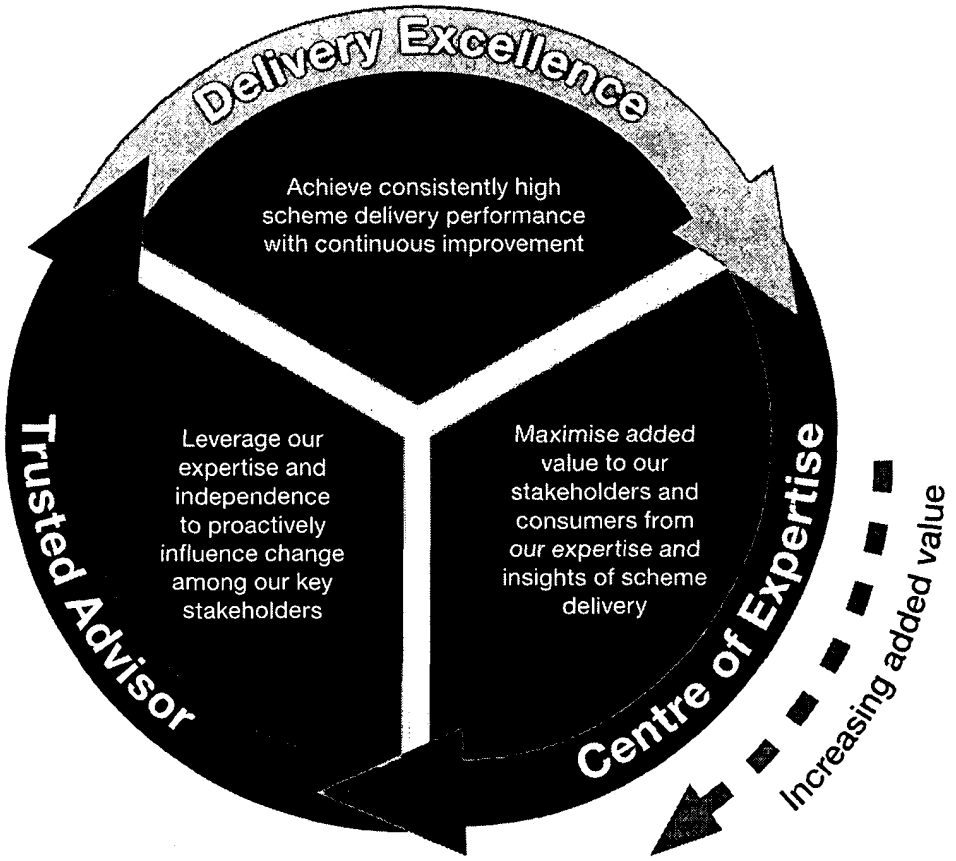
Our vision and mission are set out in the Corporate Report, alongside our key achievements during 2019/20. Figure 1 depicts our three strategic objectives, against which our performance is measured.

Performance overview

The year has seen ESC continue to deliver our core Capacity Market business activities, including the successful restart of Capacity Market settlement activity and managing the initial impacts of the Covid-19 outbreak, as well as progress on our Trusted Advisor strategy implementation.

During 2019 our activities were largely focused on managing the impact of the ECJ's annulment in November 2018 of the European Commission's 2014 State aid approval of the Capacity Market and preparing for the expected Capacity Market restart. The European Commission gave its "re-approval" for the Capacity Market scheme, and ESC recommenced its collection and settlement

Figure 1: Our three strategic objectives



functions under the relevant regulations, in late October 2019. Working with our settlement agent, EMRS, we delivered all 2019/20 system releases on time, including four significant releases required to implement the restart of the Capacity Market. Due to proactive engagement with suppliers and the support of our settlement agent, EMRS, we successfully collected sufficient funds from electricity suppliers following restart, enabling us to pay Capacity Providers in full in January 2020 for meeting their Standstill Period obligations.

We subsequently delivered operational excellence in our settlements, with 99.9% of issued invoices, notifications and payments accurate and on time, and 100% of Requested Meter Tests completed on time since restart in October 2019. The 2019/20 stakeholder survey feedback tells us that a high proportion (over 90%) of our stakeholders view us as professional, knowledgeable and informative. Although we have seen an increase in those viewing us as a trusted advisor and an expert in scheme delivery, we have further work to do to raise the profile of ESC to achieve our targets in those two areas. We continue to meet our target of responding to more than 95% of general queries within seven working days.

ESC has remained within its operating cost budget.

Overview of company's role

ESC is an operationally independent company wholly owned by the Secretary of State for BEIS, which carries out the key role of Capacity Market Settlement Body. The company's main function under the Capacity Market scheme is to perform the levy collection and settlement role set out in the Capacity Market Regulations. As part of this role, the company also collects credit cover provided by applicants to Capacity Auctions, pays the credit cover back to unsuccessful applicants and processes the credit cover of successful applicants in accordance with the requirements of the Capacity Market Regulations. This credit cover is intended to provide a level of security for the performance by capacity providers of their obligations under the Capacity Market Regulations.

In addition, as part of its role under the Capacity Market scheme, the company undertakes meter assurance activities to check that capacity providers are providing the capacity they are required to provide under their capacity agreements.

Capacity Market Standstill Period activities

Capacity payments constitute "State aid" and therefore the Capacity Market scheme requires State aid approval from the European Commission. In November 2018, the European Court of Justice (ECJ) annulled one of the Capacity Market State aid approvals (SA.35980 granted in July 2014) on the basis that the European Commission should have conducted a formal investigation prior to granting the relevant approval. Subsequent to this decision, the European Commission accordingly undertook the required investigation, pending the results of which the Capacity Market was in a "Standstill Period".

During this Standstill Period, ESC did not collect capacity payments, but undertook preparations for the "re-start" of the Capacity Market, assuming a "re-approval" decision by the European Commission. These preparations included preparing to collect payments relating to the Standstill Period (i.e. collection of "deferred payments") in accordance with regulations[10] that had been put into place to facilitate this and the Capacity Market restart. The Standstill Period was brought to an end on 25 October 2019 subsequent to the European Commission granting the relevant State aid re-approval and confirming that deferred payments could be collected in relation to the Standstill Period. ESC then recommenced its normal activities as well as addressing the collection of deferred payments and paying them out to the relevant capacity providers.

Financial overview

Capacity payments

The company obtains the funds to make payments to capacity providers by charging electricity suppliers as set out in the Capacity Market Regulations, with suppliers being obliged to pay their charges within three working days of receipt of an invoice from the company. The company does not, however, under the Capacity Market Regulations, have to make capacity payments until 29 working days after the end of the relevant month. This provides protection for the company against cashflow timing issues.

During the Standstill Period referred to above, no capacity payments were paid to capacity providers. With the Standstill Period coming to an end in October 2019 ESC, in accordance with the relevant regulations, recommenced its normal business operations, including the collection of supplier charges and the making of capacity payments for the 2019/20 Delivery Year. ESC also, in accordance with the relevant regulations[10], commenced the collection of

[10] The Electricity Capacity (No.1) Regulations 2019 SI 2019/862 http://www.legislation.gov.uk/uksi/2019/862/made

"deferred payments" from suppliers in relation to the 2018/19 Delivery Year (i.e. the period October 2018 to September 2019). The deferred payments for this period (£987.3m) were due on 21 November 2019, with any shortfall to be "mutualised" between suppliers in accordance with the regulations. In due course, all eligible Capacity Providers were paid in relation to the deferred payments due to them in respect of the Standstill Period.

Table 1: Capacity Market payments by scheme delivery year analysed by financial year

Capacity Market Delivery	FY 2019/20	FY 2018/19
Transitional Arrangement Auction 2017/2018	£nil	£5.6m
Early Capacity Auction 2017/2018	£nil	£170.0m
T-1 Capacity Auction 2018/2019	£33.4m	£nil
T-4 Capacity Auction 2018/2019	£953.9m	£nil
T-1 Capacity Auction 2019/2020	£1.5m	£nil
T-4 Capacity Auction 2019/2020	£494.5m	£nil
Total	£1,483.3m	£175.6m

The table above illustrates Capacity Market payments (which are made by Delivery Year) analysed by reference to each financial year. Capacity payment for the 2018/19 Delivery Year have been recognised in the 2019/20 financial year due to the Standstill Period.

Suppliers must lodge credit cover as security against their failure to pay amounts for which they are liable. Where the credit cover is called upon and proves insufficient to cover the amount due from a particular supplier, the shortfall is "mutualised" between the remaining suppliers (i.e. the remaining suppliers had to make up the shortfall between them). As at 31 March 2020, the company held £27.3m in supplier credit cover (2018/19: £5.8m). During the year £12.6m of supplier charge was mutualised to other suppliers (2018/19: £0.3m).

The Capacity Market also places financial obligations on capacity providers. If a capacity provider does not provide the capacity required, it may, in accordance with the Capacity Market rules and regulations, be obliged to pay a penalty to the company. Where the company receives penalty monies from capacity providers, it pays these monies to suppliers. There may also be circumstances where a capacity agreement is terminated pursuant to the Capacity Market rules. Where the company receives termination fees, these amounts are passed on to the Government's Consolidated Fund via BEIS Treasury.

Operational costs

The day to day operational costs of the company are funded by suppliers under the annual fixed 'settlement' or operational costs charges set by the Supplier Payment Regulations. The amount set out in the Supplier Payment Regulations is amended by Parliament, after public consultation, to reflect the company's required operational costs for the relevant financial year. The amount is then divided between suppliers and charged to them in accordance with their market share.

The total settlement costs charges for 2019/20 were fixed at £7.554m and for 2020/21 is set at £7.502m.

The company has delivered its operational role within the budget set by the operational costs levy for 2019/20.

The company applies robust financial management in order to ensure that its commitments are managed within the timing of its collection of the settlement cost costs levy.

The company shares resources with LCCC, which are paid for by LCCC with the proportion of the costs related to the Capacity Market being recharged to ESC, as further set out in note 2.6 to the financial statements.

The total net operating costs of the company for the year were £7.0m (2018/19: £7.2m). As a result of its strong financial performance over the financial year, the company will return £0.6m to suppliers for 2019/20 (2018/19: £0.4m).

Post balance sheet events

There are no post balance sheet events to be recognised or disclosed.

Significant accounting matters and key judgements in the financial statements

Other than the company's accounting arrangements relating to the Capital Market restart as detailed in note 4.2.2, there are no other significant accounting estimates and key judgements to be recognised or disclosed.

Viability statement

The directors have assessed the viability and prospects of the company over the next two years. In doing so the directors have undertaken a robust assessment of the company's current position, the emerging and principal risks faced by it and the potential impact of these risks on the future prospects and development of the company (including those that would threaten the company's business model, future performance, solvency or liquidity). The directors consider the company to be viable for at least the period up to March 2022, this being the time period over which the company has reasonable visibility of the budgetary process and regulations regarding the coverage of its operational costs.

The financial arrangements relating to the company minimise the risk of the company being unable to meet its liabilities. As set out in the preceding Financial Overview, the company is not obliged to make payments to capacity providers unless and until it has the funds to do so and the annual budget for its operational costs will roll forward each year pending the passing of regulations setting a new budget. The company also applies prudent financial management and robust financial forecasting and cashflow procedures to ensure that its operating costs are covered by the settlement costs levy.

As part of the strategic planning process and in assessing viability, the directors have considered the regulatory and legal environment within which the company operates and do not foresee any changes that will significantly affect the finances of the company within the viability period of two years referred to above. The directors have also carefully considered the way in which the company manages its principal risks, and have assessed the potential financial impact of the principal risks identified, and do not feel that these risks will bring into question the company's viability.

A significant risk the directors have considered when making their assessment of the company's viability is the impact of the Covid-19 outbreak. Since the outbreak, as described earlier in the Annual Report, the company has successfully implemented its Business Continuity Plan and has managed to maintain performance in all areas of the business. Regarding the company's operational cost funding (which is recovered through the settlement costs levy on suppliers) there is increased risk as many suppliers will now be facing significant uncertainty regarding the level of electricity demand. Although it is extremely difficult to forecast the extent of the impact (and duration) of the pandemic, the directors believe that the fixed nature of settlement costs levy, pay when paid mechanism for capacity payments, the option to request a working capital loan from BEIS and the potential for requesting BEIS to support an in-year adjustment to the applicable settlement costs levy rate, means that the company will be able to mitigate this risk.

Based on their assessment, the directors have a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the relevant period.

Risk management – principal risks and uncertainties

The board formally reviews the material risks facing the company and ensures that they are appropriately managed by the executive team, including ensuring that management is alert to and takes account of any new or emerging risks. The board retains ultimate responsibility for the company's risk management framework, with oversight of the overall effectiveness of the risk management programme being delegated to the audit, risk and assurance committee. The company also has a risk and assurance function to provide assurance over controls, including those to mitigate key risks.

The company's risk management framework has been designed to provide the executive and board with a clear line of sight over risk and enable informed decision making. It focusses on the identification, management, monitoring and reporting of risk and reviews completion of the primary actions being undertaken to manage and mitigate risk. Risk management is embedded within the company's operational activities.

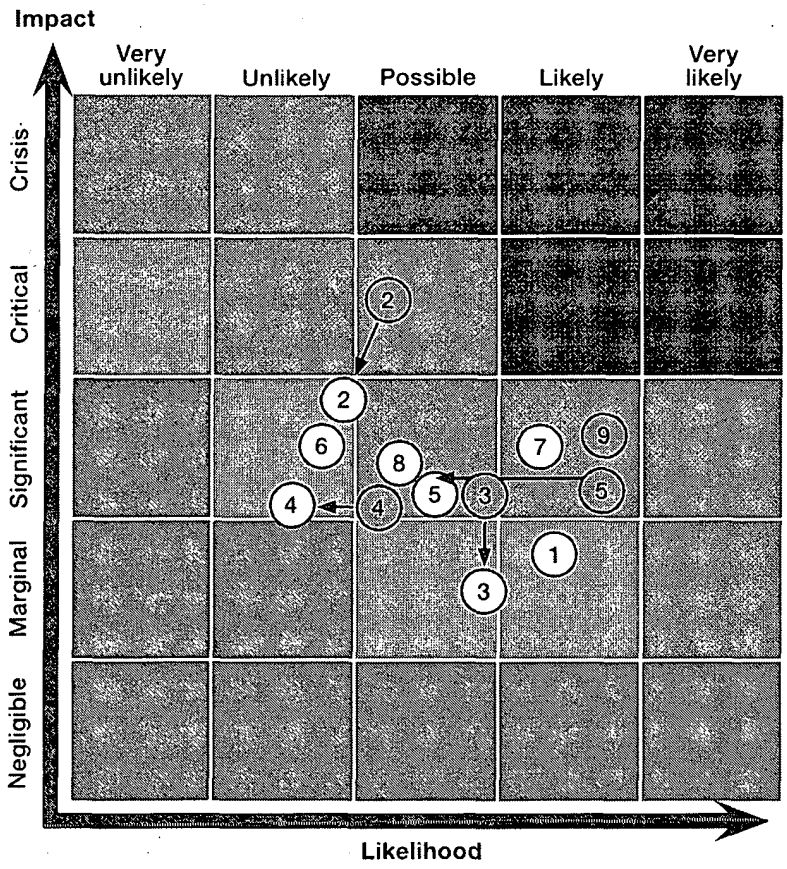
The company's approach to risk management is designed to provide reasonable, but not absolute, assurance that its business is safeguarded, the risks facing the business are being assessed and mitigated and all information that is required to be disclosed to the executive, the board and the audit, risk and assurance committee is disclosed.

The company's approach to risk management is further detailed in the Corporate Governance Report on page 34.

The assessment of the company's most significant principal risks considered by the board and the corresponding mitigating controls are set out below in no order of priority.

Risk Heat Map

The Heat Map depicts the assessment of impact and likelihood of the company's principal risks.



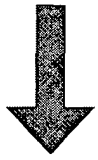
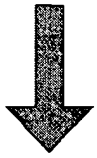
2019 position

2020 position

Risk

1. Covid-19 Pandemic
2. Cyber and Information Security
3. EU Exit
4. External Market
5. Governance Framework
6. Provision of Settlement Services
7. Reputation and Relevance to Stakeholders
8. Scheme Fraud
9. Capacity Market Restoration

Table 2: ESC principal risks

Risk	Key Mitigating Activities	Direction of Risk (trend since March 2019)
Covid-19 Pandemic There is a risk that the effects of the Covid-19 pandemic impact our stakeholders and operations which may result in business disruption and delayed or missed strategic objectives.	• We continue to work closely with BEIS and Delivery Partners to minimise any potential disruption to operations. • We continue to engage with scheme participants to understand the impact upon their operations and obligations. • We have developed stakeholder communications.	**New risk in 2019/20**
Cyber and Information Security There is a risk that our data may be lost, stolen or compromised resulting in disruption to business operations, financial loss and reputational damage.	• IT security policies and controls are in place. • We have provided mandatory training to all staff and continue to raise awareness on cyber and information security. • A cyber and information security risk register is in place. • An information security dashboard has been developed and is reported to management regularly. • We have a company wide information asset register. • GDPR controls have been implemented and a Data Protection Officer and associated processes are in place. • Information security incident response, business continuity and disaster recovery plans are in place.	 **Mitigating activities have helped to reduce this risk but we remain vigilant to the evolving nature of information security risks.**
EU Exit There is a risk that we may suffer business disruption and associated reputational damage if we are unable to appropriately manage the effects of the UK exiting the EU. This could impact ESC in areas such as the Capacity Market and our supply chain.	• Cross-functional EU Exit workstreams are in place. • ESC has engaged with key stakeholders through working groups and participation in other forums to understand their preparations for the exit from the EU. • An assessment of our supply chain and associated contracts has been performed to identify risks that require mitigation.	 **The UK left the EU during the year and the position of our key stakeholders became clearer however, some risks remain during the transition period.**

Risk	Key Mitigating Activities	Direction of Risk (trend since March 2019)
External Market There is a risk that we may be unable to anticipate and respond to competition and the complexity and volume of change in the market (including changes in regulations, rules and participants). There is a risk that in the longer-term, structural market change such as the evolution of the supplier hub model, may affect the ability to collect levies.	• We continue to maintain relationships with key policy makers via regular meetings and forums. • We are in strategic dialogue with Ofgem, BEIS and Delivery Partners regarding the volume and complexity of change. • We actively participate in joint forums with key delivery partners to assess the pipeline of changes to schemes. • We maintain awareness of market change through liaison with external stakeholders at events and forums, research papers and review of trade press. • We update and review our market analysis as part of our annual strategy update. • We have obtained and developed insights in-house and from our annual stakeholder survey. • We have a policy committee to track forthcoming policy changes and co-ordinate the company's position and response. • We have implemented a change committee to track the pipeline of change and assure delivery.	**Mitigating activities have helped to reduce this risk.** **We recognise that the pace of change may slow due to the Covid-19 pandemic.**
Governance Framework The review of the Framework Document and associated company classification (following a public body review by the Cabinet Office) present opportunities to clarify roles, responsibilities and reporting. There is, however, also a need to ensure that there are no changes that could impact on our independence.	• We have continued to support the Framework Document review as an opportunity to bring the Framework Document up to date, whilst ensuring that the company can continue to operate effectively and independently. • The company is also undergoing its first company review, conducted by BEIS in line with Cabinet Office guidelines on form and function; efficiency and effectiveness; and governance. • ESC is likely to be rebadged as a Non-Departmental Public Body as part of a wider Cabinet Office initiative to simplify Arms Length Body classification. (Currently LCCC and ESC are classified as "Central government other").	**The Framework Document and company reviews have continued to progress positively.**
Provision of Settlement Services There is a risk that systems and controls may not be robust in preventing errors and associated reputational damage. There is also a risk that our business model, systems and processes may not be fit for future which could result in inefficiencies and late or missed delivery of changes.	• Documented governance arrangements in place regarding management of settlement services. • We regularly receive and review performance reports on settlement services provision. • We have documented end-to-end settlement controls. • Controls assurance performance reporting is in place. • We are in strategic dialogue with Ofgem, BEIS and Delivery Partners regarding the volume and complexity of change. • We actively participate in joint forums with key Delivery Partners to assess the pipeline of changes to schemes. • We have worked with EMRS to develop a continuous improvement programme which will start to be implemented in 2020.	**Whilst mitigation activities continued, a significant focus for the year was on Capacity Market restart.**

Risk	Key Mitigating Activities	Direction of Risk (trend since March 2019)
Reputation and Relevance to Stakeholders There is a risk that we are, or are perceived to be, unable to balance our reputation with stakeholders and industry of being independent, with the role of being a trusted advisor to government and supporting economic growth. There is also a risk that we are unable to proactively influence and prioritise change and scale up activity quickly. Our costs may increase with increased change and complexity of policy delivery, which could in turn lead to greater scrutiny by stakeholders and a greater need to demonstrate value for money.	• We have increased information and insights available on our website to add further value to our stakeholders. • We take a regular pulse of stakeholder views via surveys and use the results to further develop our engagement plans. • We have regular dialogue with stakeholders on changes that matter to them, via workshops or events. • We engage stakeholders early and provide training on the schemes for new entrants.	 **Mitigation activities continue however this remains an inherent risk.**
Scheme Fraud There is a risk that fraud occurs within the scheme resulting in financial loss and reputational damage which could undermine confidence in the scheme and the existence of ESC.	• Key finance controls and fraud controls are in place and monitored. • We maintain scheme risk registers. • We actively participate in fraud and error forums. • We have a whistleblowing hotline and associated processes in place for the reporting of concerns. • We have an Assurance and Risk function and Scheme Operations team.	 **Mitigation activities continue however fraud risks continue to evolve.**

Signed on behalf of the Board

N McDermott

Neil McDermott
Chief Executive

4 June 2020

Board of Directors

This was the board as at 04.06.2020, with the changes during the year shown on page 32.

Regina Finn
Board Chair
Nomination Committee (chair)
Remuneration Committee (member)

Neil McDermott
Chief Executive Officer

Anne Baldock
Non-Executive Director
Remuneration Committee (chair)
Nomination Committee (member)

Simon Orebi Gann
Non-Executive Director
Audit, Risk & Assurance Committee (member)
Nomination Committee (member)

Chris Murray
Non-Executive Director
Audit, Risk & Assurance Committee (member)
Remuneration Committee (member)

Steph Hurst
Non-Executive Director
Audit, Risk & Assurance Committee (member)

Tony Bickerstaff
Non-Executive Director
Audit, Risk & Assurance Committee (chair)

Declan Burke
Non-Executive Director
Remuneration Committee (member)

Amanda Aldridge
Non-Executive Director
Audit, Risk & Assurance Committee (member)

Committee memberships are stated under each profile. The three committees are: Audit, Risk & Assurance Committee; Remuneration Committee; and Nomination Committee.

Directors' report

The directors present their annual report on the affairs of the company, together with the financial statements and auditors' report for the year ended 31 March 2020. The company's registered number is 08961281.

Board

The board is responsible for the overall strategy and direction of the company. Details of the board's composition are set out on pages 26 to 27 and page 32.

Directors and corporate governance

Full details of the directors and corporate governance matters are set out on pages 25 to 37.

Position of the company

Information relating to the strategy and to the development, performance and the future prospects of the company are set out in the Corporate Report and the Strategic Report.

Employees

The company does not have any employees.

Environment

Details are set out in the Environment Report on page 13.

Payment to suppliers

The company pays its suppliers in accordance with the provisions of its contracts with suppliers, subject to compliance by the suppliers with their obligations.

Charitable and political contributions

During the year, the company made no charitable or political contributions.

Results and dividends

The company has prepared its 2019/20 financial statements in accordance with International Financial Reporting Standards (IFRS). The audited financial statements for the year ended 31 March 2020 are set out on pages 43 to 58.

The company is a not-for-profit company. The settlement role it performs ensures that the capacity payments it is required to make to capacity providers holding capacity agreements are matched with the levies it collects from suppliers. The company's costs are funded by the settlement costs levy referred to on page 16. The amount of any excess settlement costs levy collected above requirement is refunded to suppliers. This refund is recognised through the financial statements and matched with the income collected. On this basis the financial results for the year reflect a neutral profit position i.e. nil profit-nil loss. Consequently, the company does not pay a dividend. For a more detailed review of the results for the year and a more detailed explanation of the accounting profit, see the financial statements on pages 43 to 58 and the Strategic Report on pages 14 to 21.

Directors' third party indemnity provisions

The directors have been granted an indemnity against liability in respect of proceedings brought by third parties, subject to the conditions set out in the Companies Act 2006. Such qualifying third party indemnity remains in force as at the date of approving this Directors' Report.

Going concern

The directors have a reasonable expectation that the company has adequate resources to continue to operate for the foreseeable future. The financial statements therefore continue to be prepared on a going concern basis. The basis of this view is outlined in more detail in note 2.2 to the financial statements.

Directors' responsibilities statement

The directors are responsible for preparing the annual report and financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the company financial statements in accordance with IFRS as adopted by the European Union and in accordance with applicable law. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs and profit or loss of the company for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether the applicable IFRS has been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Each of the directors, whose names and functions are described herein, confirms that to the best of his or her knowledge:

- the financial statements, which have been prepared in accordance with IFRS as adopted by the European Union, give a true and fair view of the assets and liabilities, financial position and the profit or loss of the company; and
- the Directors' Report and Strategic Report include a review of the development and performance of the business and the position of the company, together with a description of the principal risks and uncertainties that it faces.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The directors consider that the annual report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for the shareholder to assess the company's position, performance, business model and strategy.

Auditors

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow directors and the company's auditor, each director has taken all the steps that he/she is obliged to take as a director in order to make himself/herself aware of any relevant audit information and to establish that the auditor is aware of that information.

The company's auditor (the Comptroller & Auditor General, on whose behalf the NAO acts) have expressed a willingness to continue in office. The board and the audit, risk & assurance committee consider the performance of the auditors and assess their reappointment on an annual basis. A resolution to reappoint the auditors will be considered and proposed at the relevant time.

By order of the board

Claire Williams
Company Secretary

4 June 2020

Corporate Governance report

I am pleased to present our corporate governance report for the year, which describes our board's general approach to corporate governance and how the UK Corporate Governance Code is applied within the company. The board believes that good corporate governance underpins the delivery of the company's strategy and objectives and is committed to ensuring that high standards of corporate governance are maintained throughout the company.

During the year we have carried out internal reviews of our how we perform our board duties, details of which are presented in the report below. We also continued to engage with our shareholder and with key stakeholders and the wider industry.

I would like to thank all board members for their support to me as Chair since I joined the company in September 2019, and for their dedication and commitment over the year. My particular thanks go to Jim Keohane, the former Senior Independent Director, who not only helped to establish the company in 2014 and contributed as an integral and valued member of the board until his retirement in February 2020, but also led the board as Interim Chair during much of 2019. My thanks also to David Long, a long serving non-executive director who retired from the board in December 2019, and to Kate Collyer who retired from the board in October 2019. In addition, I am delighted to welcome Declan Burke and Steph Hurst who joined the board in January 2020, and Amanda Aldridge who joined in April 2020.

Regina Finn, Chair

Background to the company

The company was established by the Secretary of State for Business, Energy and Industrial Strategy to be the Capacity Market Settlement Body. The Secretary of State is the sole shareholder of the company.

While the company was set up as an operationally independent private law company, it is also a governmental arm's length body that is funded by and manages compulsory levies. Compulsory levies are normally classified as taxation, which effectively means that the company is managing public monies.

The company accordingly, both as an independent private company and as an entity having responsibilities for the administration of public monies, adopts the highest standards of governance and works to the highest standards of probity. The company recognises the importance of operating with regularity and propriety, the need for effectiveness and prudence in the administration of public resources and the need to secure value for public money. The company also recognises the importance of embedding the seven principles of public life (selflessness, integrity, objectivity, accountability, openness, honesty and leadership) into its culture and operations[11].

This Corporate Governance Report outlines the company's governance structure and demonstrates how its arrangements align with the guidelines and principles set out in the UK Corporate Governance Code. An explanation is given below where any aspect of the Code has not been fully applied.

The company's activities in the year are described in the Corporate Report and in the Strategic Report.

Framework Document

The company's main governing documents are its Articles of Association and its Framework Document. The Framework Document, which establishes the fundamental relationship between the shareholder and the company, is published on the company's website to provide transparency of the relationship.

[11] *The 7 Principles of Public Life*, available at https://www.gov.uk/government/publications/the-7-principles-of-public-life/the-7-principles-of-public-life--

The Framework Document reflects the basic tenet that functional independence is compatible with financial oversight of an arm's length body by its parent department. The Framework Document makes it clear that the company has day to day operational independence, subject to certain limited exceptions set out in legislation, the company's Articles of Association and in the Framework Document itself. The limitations on the company's independence are those which are either:

- common to government owned entities and necessary to satisfy government and Parliamentary budgeting and accountability requirements; or
- provide the shareholder with specific controls in respect of policy implementation matters which it is the company's responsibility to execute.

The Framework Document recognises that the company is a separate corporate entity and that its governance, and decision making processes, flow through its board, with its executives reporting to that board.

The Framework Document states that in carrying out its functions, activities and role the company shall seek to maintain market participants' confidence in the Capacity Market process and minimise costs to consumers. This is known as the "Guiding Principle". The company recognises the importance of this Guiding Principle.

UK Corporate Governance Code

The company is required by the Framework Document to comply with the UK Corporate Governance Code as it applies to small quoted companies (other than Section E relating to relations with shareholders) or specify and explain any non-compliance in its annual report. The company additionally believes that the adoption of the UK Corporate Governance Code is important as a means of recognising and embedding best practice in corporate governance.

The board considers that the company has complied in full with the Code, other than as explained in this Corporate Governance Report. Any non-compliance is due to the requirements of the company's shareholder as reflected in the company's Articles of Association and the Framework Document or is due to a timing matter relating to the Senior Independent Director or other board appointments.

Role of the board

The board is committed to ensuring high standards of corporate governance. It accepts that good governance is based on the underlying principles of accountability, transparency, probity and focus on the sustainable success of the company over the longer term.

The board is collectively responsible for the long term success of the company and is ultimately responsible for its strategy, management, direction and performance. The board sets the company's strategic aims, ensures that the necessary financial and human resources are in place for the company to meet its objectives, reviews progress towards the achievement of objectives and reviews the performance of management.

The board establishes the values, culture, ethics and standards of the company and sets the framework for prudent and effective controls, which enables risk to be assessed and managed. The board has delegated authority to its committees to carry out the tasks defined in the committees' terms of reference. The committees are (i) the audit, risk and assurance committee and (ii) the nomination committee. The written terms of reference of both committees are available on the company's website.

The board has delegated the day to day management of the company to the Chief Executive.

Composition of the board

The Framework Document and the Articles of Association provide that the shareholder's approval is required for all board appointments. The Framework Document and the Articles of Association also state that the shareholder has the right to appoint the Chair, the Senior Independent Director and up to two shareholder nominated directors.

Regina Finn was appointed as Chair (effective on 2 September 2019), taking over from the Interim Chair, Jim Keohane. Jim Keohane had temporarily (on 1 October 2018) stepped aside from his role as Senior Independent Director in order to take up the post of Interim Chair. Anne Baldock, a non-executive director, was appointed (effective on 1 October 2018) as interim Senior Independent Director pending the return of Jim Keohane to this role after the appointment of the new Chair.

Jim Keohane retired from his position as Senior Independent Director on 29 February 2020 at the expiration of his term of appointment.

The position is currently vacant, pending the appointment of a new Senior Independent Director. The expectation is that the new Senior Independent Director is likely to be appointed in July/August 2020.

In addition to the Chair, the board comprises eight other directors, being currently two shareholder nominated directors, five independent non-executive directors and the Chief Executive.

The shareholder nominated directors at year end (and currently) are Declan Burke and Steph Hurst, both appointed 29 January 2020 and both civil servants employed by BEIS. The shareholder nominated directors are appointed for the period required by the shareholder. The previous shareholder nominated directors during the financial year were Kate Collyer (resigned 5 October 2019) and David Long (resigned 12 December 2019).

Four of the independent non-executive directors were present at year end (and remain currently in place). These directors are Tony Bickerstaff, Anne Baldock and Simon Orebi Gann (all appointed 11 November 2014 and re-appointed on 11 November 2017) and Chris Murray (appointed 26 June 2018). Amanda Aldridge joined the board after year end (appointed on 2 April 2020). Each director was appointed after the consent of the shareholder was obtained in accordance with the Framework Document and the Articles of Association. The term of office of each independent non-executive director is three years from the date of appointment or reappointment (as applicable).

Neil McDermott, the Chief Executive, was appointed as a director on 22 July 2014. Catherine Gan, the former Chief Finance Officer, became a director on 24 April 2017 and ceased being a director on 15 November 2019[12].

An external recruitment consultancy was used in the appointments or original appointments of the Chair, former Senior Independent Director, independent non-executive directors, Chief Executive and former Chief Finance Officer. The search process was formal, rigorous and transparent and the searches were conducted, and appointments made, on merit, against objective criteria and with due regard for the benefits of diversity on the board. The shareholder nominated directors are civil servants selected by the shareholder.

No recruitment consultancy used by the company has any other connection with the company.

The details of all board members, any changes in the year and attendance at board meetings are listed on pages 32 to 33. All directors, with the exception of the shareholder nominated directors, have written terms of appointment. These terms of appointment are available for inspection at the company's registered office during normal business hours.

The Chair was independent on appointment. The board considers the former Senior Independent Director and all non-executive directors, other than the shareholder nominated directors, to be independent of the company.

The board and its committees have an appropriate, effective and broad balance of skills, experience, independence and knowledge which enables them to discharge their respective duties and responsibilities effectively.

New directors receive an induction programme and additional training that is tailored to their individual needs.

Board changes

Reference is made to the table on page 32.

Board governance

The board meets sufficiently regularly to discharge its duties effectively, generally meeting several times per year (with additional ad hoc meetings as required). The board met five times in 2019/20 and also held a separate strategy meeting.

The following summarises the board's main activities over the course of the year:

- Business performance and oversight – including receiving during the year regular updates on how the business is performing against its business plan, budget, strategic priorities and KPIs.
- Strategy and progress - participated in the annual strategic workshop attended also by senior management and reviewed the refreshed strategy and objectives of the company, including with input from third party advisors to obtain better visibility of the market landscape. The board also reviewed the results of the annual industry stakeholder survey and the learnings from that survey and received strategy updates during the course of the year.
- Risk and opportunity – reviewed the principal risks faced by the company and the actions being undertaken to mitigate against

[12] The company has in interim Chief Finance Officer in place and expects to appoint a new Chief Finance Officer during the course of June/July 2020.

these risks, including in relation to cyber and information security.

- Audit and annual report – reviewed the annual report and considered matters such as the re-appointment of the external auditors.

- Governance and compliance – reviewed the results of the annual board and committee evaluation. Further information about the evaluation process can be found on page 29. The board also considered reports from the committees and matters such as the annual data protection report and insurance.

- Capacity Market – oversight of organisation delivery and considering issues relating to readiness for Capacity Market re-start.

- Settlement – reviewed matters relating to the outsourced settlement services and proposed improvements in the future period.

The Chair has held a meeting with the non-executive directors without the executives being present. The non-executive directors, led by the former Senior Independent Director, have met without the Chair and executive directors being present.

Details of the directors' interests are recorded in a register maintained by the company and reviewed at least annually by the board. The company has procedures in place to ensure that any actual or potential conflicts of interest are appropriately declared and managed. Directors are required to declare any actual or potential conflict of interest to the board and to the Company Secretary.

The board is supplied in a timely manner with the appropriate information of the required quality to enable it to discharge its duties effectively and properly. The Chair, Chief Executive and Company Secretary have review processes in place to ensure the quality of the information provided to the board and its committees. The board and committees have concluded, after assessing the question as part of their annual evaluation processes, that they were being provided in a timely manner with appropriate information of the required quality. Board members have access to the Company Secretary and also to independent legal advice if appropriately required.

There is a formal schedule of matters specifically reserved to the board. In high level terms, the day to day management of the company is delegated to the Chief Executive and senior management with the matters reserved to the board including:

- setting and approving the company's strategy

- responsibility for the leadership of the company

- approving the financial statements

- approving (subject to shareholder consent) the annual business plan and budget

- monitoring and overseeing risk management, financial reporting and the system of internal control

- oversight of the company's operations

- approving of financial commitments over specified monetary thresholds

- setting the terms of reference for the board committees.

The main roles and responsibilities of the Chair, Chief Executive, Senior Independent Director and non-executive directors are summarised in high level terms below. There is a formal document, approved by the board, setting out the division of responsibilities between the Chair and the Chief Executive.

The Chair:

- provides clear and effective leadership to the board

- is responsible for maintaining high standards of operation and governance

- is responsible for promoting a culture of openness and constructive debate by facilitating the effective contribution of the non-executive directors

- facilitates the effective contribution and encourages the active engagement of all members of the board

- ensures the annual evaluation of the performance of the board, its members and its committees

- ensures constructive relations between the executive and non-executive directors

- speaks on behalf of the board and represents the board to the shareholder

- manages the business of the board, including the board's agenda and ensuring that adequate time is available for the discussion of all agenda items, in particular, strategic issues

- is responsible for ensuring that the directors receive accurate, timely and clear information.

The Chief Executive:

- fulfils his responsibilities as Accounting Officer[13]
- leads the executive team in the day to day running of the company
- makes and executes operational decisions
- implements the strategy agreed by the board
- ensures delivery within the annual budget
- ensures appropriate internal controls and risk management processes are in place
- maintains the appropriate dialogue with the Chair and the board
- facilitates effective communication to the shareholder and external stakeholders, including service providers, industry parties, regulatory bodies and governmental authorities
- ensures the values of the company are embedded within its operations and staff culture.

The Senior Independent Director:

- works alongside the Chair and provides a sounding board for the Chair
- is available as an intermediary to other directors when necessary
- leads the meeting(s) with the other non-executive directors without the Chair being present, including to appraise the performance of the Chair.

Non-executive directors:

- Non-executive directors (including via their activities in relevant committees) ensure that the board fulfils its responsibilities, including in relation to strategy, monitoring the performance of management and satisfying themselves as to the integrity of financial information and that there is in place robust internal controls and a sound system of risk management.

Board evaluation

The board undertakes an annual formal and rigorous evaluation of its own performance and that of its committees and individual directors. The committees also each separately undertake an annual evaluation process. The evaluation review in 2019/20 was undertaken by use of a focussed questionnaire for the board and each committee, with the results being discussed by the board and the committees.

The Chair has, with input and assistance from the other directors and relevant members of executive management, undertaken an objective and thorough evaluation of the performance of the former Senior Independent Director. As the Chair was only appointed in September 2019 and there were subsequent other changes in the board membership, with two board members leaving part way through the year (in October and December 2019), two new board members being appointed at the end of January 2020 and the expectation that a third new board member would be appointed at around the same time, the evaluation of the Chair was not undertaken this year. There was also an expectation that a new Senior Independent Director would have been appointed before year end to replace the former Senior Independent Director, who retired at the end of February 2020. There have, however, as mentioned previously in this report, been delays in the process for the shareholder's recruitment of a new Senor Independent Director. The relevant evaluation of the Chair will take place in the 2020/21 year.

The board and committee evaluation process concluded that the board and the committees are working cohesively and effectively, are performing their roles in a proper, good and appropriate manner and that there is strong corporate governance in place.

The Chair also regularly reviews and discusses with each director their training and development needs, including as part of the evaluation process. The Company Secretary also seeks to identify useful refresher training or industry familiarisation sessions for directors, including briefings on internal expertise areas (such as forecasting and settlement systems), industry developments, data protection, cyber security and compliance matters.

Audit, Risk & Assurance Committee

At year end, the membership of this committee comprised four non-executive directors, namely Tony Bickerstaff (chair), Simon Orebi Gann, Chris Murray and Steph Hurst. All were

[13] The responsibilities of an Accounting Officer are described in HM Treasury guidance *"Managing Public Money"*. They include accountability for the activities of the company, the stewardship of public funds and the extent to which key performance targets and objectives are met.

members for the whole year, other than Steph Hurst who was appointed on 29 January 2020. Kate Collyer was a member of the committee until her resignation on 5 October 2019. Jim Keohane was a member of the committee from his appointment on 4 October 2019 until his resignation on 29 February 2020.

The chair of the committee is a qualified accountant with current and relevant financial experience. The committee is composed of three independent non-executive directors and one shareholder nominated non-executive director. The Framework Document, as permitted by the Articles of Association, requires the committee to include a director nominated by the shareholder.

The committee met three times in the financial year 2019/20, with meetings in May 2019, October 2019 and February 2020.

The Chief Executive (as Accounting Officer), Chief Finance Officer (or, as relevant, interim CFO), Head of Assurance & Risk, Company Secretary and external auditors attended each meeting. The Accounting Officer, Chief Finance Officer (or, as relevant, interim CFO), Head of Assurance & Risk, Company Secretary and the external auditors have access to the chair of the committee outside formal committee meetings. The Head of Assurance & Risk and the external auditors each separately meet informally with the committee after every scheduled committee meeting.

The main responsibilities of the committee include:

- monitoring the assurance needs of the company in relation to risk, governance and the control framework
- reviewing the company's internal controls (including financial controls) and risk management systems
- monitoring the integrity of the company's financial statements and reviewing and reporting to the board on significant financial reporting issues and judgements
- monitoring the effectiveness of the company's internal audit function
- making recommendations to the board in relation to the appointment, re-appointment and removal of the external auditor and approving the remuneration and terms of engagement of the external auditor
- reviewing external auditor independence and objectivity and the effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements
- reporting to the board, identifying any matters in respect of which it considers that action or improvement is needed and making recommendations as to the steps to be taken
- reporting to the board on how it has discharged its responsibilities
- undertaking an evaluation of its own performance.

The committee has reviewed arrangements by which personnel are able, in confidence, to raise concerns about possible improprieties in matters of financial reporting or other matters.

The committee applies an external auditor independence policy to safeguard auditor objectivity and independence where the company's auditors have provided non-audit services. The external auditor has not provided any non-audit services in the financial year.

In the financial year, the committee discussed the following matters:

- Risk Management Reviews and Risk Register Updates
- Internal Audit Activity Updates and Internal Audit Plan
- Status of Significant Accounting Estimates, Judgements and Special Issues
- Annual Report Update: Governance, Going Concern & Viability Statement
- External Auditors' Report for 2018/19
- Letters of Representation for 2018/19
- Recommendation of Annual Report and Accounts for 2018/19
- Committee Annual Report to the Board
- Revised Delegated Financial Authorities
- Internal Audit Evaluation Questionnaire
- Accounting Officer Letters
- Whistleblowing Update
- Internal Audit Charter
- Deep Dive Risk Discussion on People and Knowledge Management
- Re-Appointment of External Auditors and Audit Fee for 2019/20

- External Auditor Letter of Engagement for 2019/20
- Annual Evaluation of Committee for 2018/19 (including Terms of Reference)
- Annual Report Process for 2019/20
- External Audit Plan for 2019/20
- Information Security Audit Update

The minutes of the meeting are circulated to the board.

There were no significant issues considered by the committee in relation to the financial statements in respect of accounting treatments.

The company's main risks and related mitigating actions are set out on pages 18 to 21 of the Strategic Report. There have been no failures in or breaches of information security (other than minor or non-significant failures or breaches). There have also been a small number of incidents of whistleblowing concerns raised in year. All have been investigated in accordance with the company's whistleblowing process and reviewed appropriately by the audit, risk and assurance committee. There are no common themes nor specific risks identified across the cases.

The re-appointment of the external auditor was approved by the board in December 2019 upon the recommendation of the committee. The committee, in recommending the re-appointment, and the board in approving the re-appointment, took into account the fact that the Framework Document stated the strong presumption that the company would appoint the National Audit Office (NAO) as its auditor and also that shareholder consent was required for the appointment of any external auditor. It also noted the significant benefits of appointing the NAO based on value for money, the potential synergies with BEIS's audit requirements and the NAO's understanding of both the complex environment within which the company operates and the wider government and public sector context.

The committee assessed the effectiveness of the external audit process and provided its comments on the effectiveness to the external auditor. In addition, the chair of the committee attended a BEIS audit committee, which provided an opportunity to learn from the experience and activities of the BEIS audit committee and to discuss any common issues.

Nomination Committee

At year end, the committee comprised Regina Finn (chair), Anne Baldock and Simon Orebi Gann. All were members of the committee throughout the year, other than Regina Finn (appointed 4 October 2019). Jim Keohane (former chair) resigned from the committee on 29 February 2020.

All members of the nomination committee (other than the chair) are independent non-executive directors.

The committee met four times during the year, in April 2019, May 2019, September 2019 and February 2020. No member of the committee attended an agenda item in respect of which they had a personal interest or were discussed or appraised.

The committee's responsibilities include:

- regularly reviewing the structure, size and composition of the board including skills, knowledge, diversity and experience
- reviewing plans for the orderly succession for appointments to the board and to senior management, so as to maintain an appropriate balance of skills and experience within the company and on the board and to ensure progressive refreshing of the board
- undertaking an evaluation of its own performance.

These matters were discussed by the committee during the course of the year, with particular reference to the:

- composition of the board and balance of skills required
- recruitment process for the identification and appointment of new chair and new directors to replace retiring directors.

The minutes of committee meetings are circulated to the board.

Board and Committee Membership

The table below sets out the dates of appointment of the members to the board and the committees and details of those board members who resigned in the year.

2019/20	Role	Board	Audit, Risk & Assurance Committee	Nomination Committee
Amanda Aldridge	Non-executive director	App. 02/04/2020	App. 02/04/2020	
Anne Baldock	Non-executive director to 30/09/2018 and interim Senior Independent Director from 01/10/2018 to 01/09/2019 & non-executive director from 02/09/2020	App. 11/11/2014 (re-appointed for 3 years from 11/11/2017)		App. 16/12/2014
Tony Bickerstaff	Non-executive director	App. 11/11/2014 (re-appointed for 3 years from 11/11/2017)	App. 16/12/2014	
Declan Burke	Non-executive director	App. 29/01/2020		
Kate Collyer	Non-executive director	App. 13/09/2018 Res. 05/10/2019	App. 13/09/2018 Res. 05/10/2019	
Regina Finn	Chair	App. 02/09/2019		App. 04/10/2019
Catherine Gan	Chief Finance Officer	App.24/04/2017 Res. 15/11/2019		
Steph Hurst	Non-executive director	App. 29/01/2020	App. 29/02/2020	
Jim Keohane	Senior Independent Director to 30/09/2018, Interim Chair from 01/10/2018 to 01/09/2019 & Senior Independent Director from 02/09/2019	App. 22/07/2014 (re-appointed until 29/02/2020)	App. 04/10/2019 Res. 29/02/2020	App 24/10/2017 Res. 29/02/2020
David Long	Non-executive director	App. 27/10/2015 Res. 12/12/2019	App. 25/04/2018 Res. 13/09/2018	
Neil McDermott	Chief Executive	App. 22/07/2014		
Chris Murray	Non-executive director	App. 26/06/2018	App. 18/07/2018	
Simon Orebi Gann	Non-executive director	App. 11/11/2014 (re-appointed for 3 years from 11/11/2017)	App. 16/12/2014	App. 16/12/2014

Board and committee meetings

The table below shows the number of board and committee meetings of the company held during the year ended 31 March 2020 and the attendance of the individual directors. It should be emphasised that the table does not fully reflect the contribution made to the company's business by many of the directors who have also attended other meetings (including with senior managers), attended briefings on various matters, addressed matters raised ex-committee, attended training and conferences, given talks to staff and attended events relating to the company's business and activities during the year. In addition, generally members who could not attend a meeting provided comments on the papers for the meeting.

Member attendance record during 2019/20

	Board	Audit, Risk & Assurance Committee	Nomination Committee
Number of meetings	**5**	**3**	**4**
Anne Baldock	5		4
Tony Bickerstaff	5	3	
Declan Burke	1**		
Kate Collyer	2*	0*	
Regina Finn	3**		1**
Steph Hurst	1**	1**	
Catherine Gan	3*		
Jim Keohane	5	2*	4
David Long	3*		
Neil McDermott	5		
Chris Murray	5	3	
Simon Orebi Gann	5	3	4

* Resigned part way through the year
**Appointed part way through the year
***Amanda Aldridge is not listed as she was appointed after year end

Relations with shareholder and stakeholders

The company in accordance with its Framework Document maintains an appropriately regular dialogue with its shareholder. There are two shareholder nominated directors. The company has also engaged in regular communication with industry and other stakeholders, including by stakeholder engagement events, annual stakeholder survey, regular newsletters and via its website. As a non-traded entity, the company does not propose to have an annual general meeting.

Maintenance of a sound system of internal control

The board has overall responsibility for the company's risk management and system of internal controls and for reviewing their effectiveness. While retaining overall responsibility, the board has established a clear organisational structure and well defined delegated accountabilities for more regular and granular review of the effectiveness of the company's risk management framework to the audit, assurance and risk committee and executive.

The key elements and procedures established to provide effective risk management and internal controls have been established. The systems in place are monitored and embedded and are as set out below:

Control and assurance environment

- The board is responsible for the company's system of internal control and for reviewing its effectiveness. The company's system of internal control is designed to manage and where possible to mitigate the risks facing the company, safeguard the assets and provide reasonable (although not absolute) assurance against material financial misstatement or loss. The audit, risk and assurance committee assists the board in discharging its responsibilities (as further described below and in the section headed Audit, Risk and Assurance Committee on pages 29 to 31).

- The board, with the assistance of the audit, risk and assurance committee, has reviewed and is satisfied with the effectiveness of the company's systems of risk management and internal control.

- There have been no significant lapses in protective security.

- There is an appropriate quality assurance framework in place and applied to all business critical models[14].

Risk management framework

- The identification, mitigation and continual monitoring of significant business risks and emerging risks is the responsibility of senior management. Each functional department of the company maintains a risk register identifying the business risks and emerging risks and allocating responsibility for appropriate monitoring and the implementation of mitigating controls. Departmental risk registers and the company's strategic risk register are kept under regular review by the senior management team and reported to the board and audit, risk and assurance committee, with the top strategic risks and emerging risks receiving particular attention. A risk workshop attended by senior employees was held during the year. Risk management processes are incorporated into the company's management and governance systems at all levels and form a part of the company's day to day operations.

- The audit, risk and assurance committee formally reviews the risk position at each scheduled meeting (in 2019/20, in May 2019, October 2019 and February 2020) and is updated on any significant risk matter which falls outside its formal review cycle. The committee considers the risk appetite of the company in relation to the principal risks and receives a completion report relating to the actions being undertaken to minimise and mitigate risk items. The board discussed risk appetite matters at a dedicated session in early April 2020.

- The board reviews the strategic risk register twice per year (in 2019/20, in July 2019 and February 2020). The reports to the audit, risk and assurance committee and the board include a report from management on the status of the risk management and internal control, (if any) significant failings or weaknesses identified during the period and (if relevant) any actions taken to remedy any significant weaknesses.

- The board has reviewed, with the assistance of the audit, risk and assurance committee, and is satisfied that a comprehensive and robust process for identifying, assessing and managing the company's principal risks is in place, including in respect of those risks that would threaten its business model, future performance, solvency or liquidity. Reference is made to the more detailed risk report on pages 18 to 21.

Internal audit

- The company has an internal audit function that provides the audit, risk and assurance committee with independent, objective assurance regarding internal controls and the risk management process as part of the company's risk management and assurance regime. The audit, risk and assurance committee agrees a programme of internal audit work annually and reviews progress at each of its meetings. The annual audit plan takes into account current business risks. The committee is considering the methodology for the future provision of the internal audit function, including its potential outsourcing.

Financial management and reporting

- There is a comprehensive strategic planning, budgeting and forecasting process within the company, with the business plan (including the annual budget) being approved by the board.

- The company's operational costs are set out in the annual budget. The process for establishing the annual budget involves a number of stages which provide challenge and accountability to ensure that a robust and prudent annual budget is prepared which also ensures cost control and value for money for consumers. The draft budget is reviewed by the board, subsequent to which it is submitted to the shareholder for further review. The shareholder then undertakes a public consultation on the proposed budget.

[14] The company takes into account the MacPherson Review, *HM Treasury Review of Quality Assurance of government analytical models: Final Report*, March 2013. https://www.gov.uk/government/publications/review-of-quality-assurance-of-government-models It is also compliant with the AQuA Book relating to quality assurance processes in place. https://www.gov.uk/government/publications/the-aqua-book-guidance-on-producing-quality-analysis-forgovernment

Subsequently the settlement costs levy, which funds the company's budget, is laid before Parliament in the form of regulations.

- The company operates robust financial management processes to ensure that it manages within its operational budget so as not to exceed the settlement costs levy.

- An update on the company's progress, financial performance, budget forecasts and results is reported in the management information report submitted to each board meeting.

- Senior management meet regularly with the Chief Executive and Chief Finance Officer (or, as relevant, interim Chief Finance Officer) to discuss business progress. Management accounts are reviewed regularly.

- There is shareholder oversight of financial management as set out in the Framework Document and the Finance and Reporting Letter from the shareholder to the company dated 1 August 2014, including monthly reporting.

- The company is required to comply with the requirements set out in the Framework Document and the Finance and Reporting Letter, including the requirement to comply with the relevant requirements in HM Treasury guidance entitled "*Managing Public Money*"[15].

Operational

- The senior management team meets on a fortnightly basis to review the operations of the company, its delivery, progress, issues and challenges. The Chief Executive has regular meetings with each member of the senior executive team.

- The Chief Executive and the executive team meet with appropriate regularity with the shareholder and other stakeholders.

- The settlement team and other functional teams work closely together to ensure the appropriate interfaces and communication in relation to capacity agreement settlement and metering assurance, with the governance, internal decision making and critical processes being documented.

- The company reports on its significant matters relating to its operational activities at each board meeting.

- The board decides on matters falling within the schedule of reserved matters (e.g. financial commitments over the specified threshold) or otherwise raised to it for decision.

Procurement

- The company has in place an effective procurement policy which requires it to procure all goods and services in compliance with the relevant requirements in *Managing Public Money*, Cabinet Office controls and the public procurement regulations.

- The company is required to carry out procurement and project appraisal objectively and fairly, using cost benefit analysis and generally seeking good value for money.

Legal and compliance

- There is a system for monitoring and embedding compliance, including by company policies and procedures as well as training and guidance to support compliance (e.g. relating to anti-bribery, whistleblowing, data protection, anti-money laundering, health & safety and other legislative and good practice requirements). External obligations are driven primarily by key legal, statutory and regulatory requirements.

- The company expects the highest standards from all personnel and its supply chain.

- The company considers and implements the requirements of the Alexander Tax Review in relation to the retention of consultants.[16]

Treasury management

- The finance department:

  - operates within policies agreed by the audit, risk and assurance committee
  - uses its resources efficiently, economically and effectively, avoiding waste and extravagance
  - uses management information systems to gain assurance about value for money and the quality of delivery and so make timely adjustments; and
  - uses internal and external audit to improve its internal controls and performance.

Insurance

- Appropriate insurance is in place, with insurance cover being reviewed annually by the board.

Neil McDermott
Chief Executive and Accounting Officer
4 June 2020

[15] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/454191/Managing_Public_Money_AA_v2_-jan15.pdf

[16] HM Treasury, Review of tax arrangements of public sector appointees, May 2012: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/220745/tax_pay_appointees_review_230512.pdf

Remuneration report

The company's registered number is 08961281.

Employees

The company does not have any employees. The company performs its functions through LCCC.

Executive directors

The executive directors are employed and paid by LCCC. They therefore do not receive any remuneration from the company. LCCC charges the company for its services, with an amount relating to full cost of the executive directors to LCCC forming a fair and properly allocated component of that charge. This arrangement is detailed in the "recharge" arrangements described in note 2.6 to the financial statements.

Non-executive director fees

The shareholder nominated (or "governmental") directors are not paid by the company.

Levels of remuneration for the remunerated non-executive directors reflect the time, commitment and responsibilities of the role. The levels also reflect the advice on remuneration for the independent non-executive directors (other than the Chair) and benchmarking information provided in 2014 by Odgers Berndtson (independent recruitment consultancy) as supplemented by advice in 2019 by Korn Ferry (independent recruitment consultant). Advice on remuneration and benchmarking was refreshed with GatenbySanderson for the appointment of the Chair and Korn Ferry for purposes of recruitment of directors over the past several months.

No director is involved in deciding his or her own individual remuneration.

For reasons of synergy, operational efficiency and cost effectiveness, the board of directors of the company and LCCC are identical. As the fees paid to the remunerated non-executive directors relate to work for both companies, these fees are paid by LCCC, with a fair and properly allocated amount (generally 20%) being "recharged" by LCCC to the company under the "recharge" arrangements described in note 2.6 to the financial statements. This allocation is illustrated in the table on page 37. These fees (paid by LCCC with the relevant recharge to the company) are the only form of remuneration received by the remunerated non-executive directors.

Non-Executive Directors' Remuneration (audited)

Name	2019/20 Fees[17]	Principal positions held elsewhere at 31 March 2020
Amanda Aldridge	£nil (appointed after year end)	• LCCC – non-executive director • Headlam Group plc – non-executive director • Impact Healthcare REIT plc – non-executive director • Places for People Group plc – non-executive director on the regulated board • Places for People Homes Limited – non-executive director • Places for People Living + Limited – non-executive director • The Brunner Investment Trust plc – non-executive director • St Francis College Trust – director and trustee • The Knebworth Scout and Guide Group – trustee
Anne Baldock	£6,250[18] 2018/19: £6,500[19]	• LCCC – non-executive director • East West Railway Company Limited – non-executive director • Electricity North West Limited – non-executive director • Submarine Delivery Agency – non-executive director
Tony Bickerstaff	20% of £31,000 2018/19: 20% of £31,000	• Costain Group Plc – Group Finance Director • CBI Economic Growth Board – member • LCCC – non-executive director
Declan Burke	£nil (shareholder nominated director – civil servant)	• BEIS – Director, Clean Power Strategy and Deployment • LCCC – non-executive director
Kate Collyer	£nil (shareholder nominated director)	• Financial Conduct Authority – Chief Economist
Regina Finn	£14,583[20] 2018/19: £nil	• LCCC – Chair • Lucerna Partners Ltd – director • Places for People – non-executive director
Catherine Gan	N/A	• Reactive Technologies – Chief Finance Officer
Steph Hurst	£nil (shareholder nominated director – civil servant)	• Deputy Director, International Science and Innovation Directorate • LCCC – non-executive director
Jim Keohane	£14,000[21] 2018/19: £16,000[22]	• Harwich Haven Authority – Chair • Market Operator Services Ltd – Chair
David Long	£nil (shareholder nominated director)	• Cambridge University, Head of Investment Appraisal
Neil McDermott	N/A	• LCCC – Chief Executive and director
Chris Murray	20% of £25,000 2018/19: 20% of £19,135[23]	• LCCC – non-executive director • APX3 Limited – director • West Transmission Limited – director • Belfast Gas Transmission Limited – director • Mutual Energy Limited – director • Premier Transmission Limited – director • Moyle Interconnector Limited – director • Energy & Utility Skills Limited – special advisor to the board • Loros – trustee and director (Leicestershire hospice)
Simon Orebi Gann	20% of £25,000 2018/19: 20% of £25,000	• LCCC – non-executive director • Aspen Technology Inc (NASDAQ: AZPN) –USA – non-executive director • Market Operator Services Ltd – non-executive director • Treasury/Cabinet Office Major Programmes Review Group – independent panel member

[17] This column shows the only form of remuneration that each non-executive director receives from ESC. ESC pays 20% to reimburse LCCC under the re-charge arrangements with LCCC (other than in respect of Regina Finn, Jim Keohane and Anne Baldock where the amount relating to ESC is as stated) – see note 2.6 to the financial statements

[18] 5 months pro rata (1 April 2019 – 2 September 2019) at £8,000 and 7 months pro rata (3 September 2019 – 31 March 2020) at 20% of £25,000.

[19] 6 months pro rata (1 April – 30 September 2018) at 20% of £25,000 and 6 months pro rata (1 October 2018 – 31 March 2019) at £8,000.

[20] 7 months pro rata (2 September 2019 – 31 March 2020) at £25,000.

[21] 5 months pro rata (1 April 2019 – 3 September 2019) at £24,000 and 6 months pro rata (1 October 2019 – 29 February 2020) at £8,000

[22] 6 months pro rata (1 April - 30 September 2018) at £8,000 and 6 months pro rata (1 October 2018 – 31 March 2019) at £24,000.

[23] 9 months, 4 days pro rata (26 June 2018 – 31 March 2019) at 20% of £25,000.

Independent Auditor's Report to the sole shareholder of Electricity Settlements Company Ltd

Opinion on financial statements

I have audited the financial statements of the Electricity Settlements Company Ltd ("the company") for the year ended 31 March 2020 which comprise:

- the Statement of Comprehensive Income;
- the Statement of Financial Position;
- the Statement of Cash Flows;
- the Statement of Changes in Equity; and
- the related notes, including the significant accounting policies.

The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006. I have also audited the information in the Directors' Remuneration Report that is described as having been audited.

In my opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2020 and of the result for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union; and
- have been prepared in accordance with the Companies Act 2006.

Opinion on regularity

In my opinion, in all material respects the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Conclusions relating to principal risks, going concern and viability statement

I have nothing to report in respect of the following information in the annual report, in relation to which the International Standards on Auditing (ISAs) (UK) require us to report to you whether I have anything material to add or draw attention to:

- the disclosures in the annual report that describe the principal risks and explain how they are being managed or mitigated;
- the directors' confirmation in the annual report that they have carried out a robust assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity;
- the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the directors' identification of any material uncertainties to the Company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- the directors' explanation in the annual report as to how they have assessed the prospects of the Company, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Basis of opinions

I conducted my audit in accordance with ISAs (UK) and Practice Note 10 'Audit of Financial Statements of Public Sector Entities in the United Kingdom'. My responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of my report. Those standards require me and my staff to comply with the Financial Reporting Council's Revised Ethical Standard 2016. I am independent of the Company in accordance with the ethical requirements that are relevant to my audit and the financial statements in the UK. My staff and I have fulfilled our other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

The regularity framework described in the table below has been applied:

Regularity Framework	
Authorising legislation	• Energy Act 2013
Parliamentary authorities	• Capacity Market Rules
Regulations issued under governing legislation	• Electricity Capacity Regulations 2014
Shareholder, HM Treasury and related authorities	• Articles of Association • Framework Document between the Secretary of State and the company • Managing Public Money and Cabinet Office spending controls (to the extent they are applicable to the company)

Overview of my audit approach

Key audit matters

Key audit matters are those matters that, in my professional judgment, were of most significance in my audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that I identified.

I consider the following areas of particular audit focus to be those areas that had the greatest effect on my overall audit strategy, the allocation of resources in my audit and directing the efforts of the audit team in the current year. These matters were addressed in the context of my audit of the financial statements as a whole, and in forming my opinion thereon, and I do not provide a separate opinion on these matters.

This is not a complete list of all risks identified by my audit but only those areas that had the greatest effect on my overall audit strategy, allocation of resources and direction of effort. I have not, for example, included information relating to the work I have performed around the presumed risk of management override of controls under ISA (UK) 240, the Auditor's Responsibility Relating to Fraud in Financial Statements, an area where my work has not identified any matters to report.

The areas of focus were discussed with the Audit and Risk Committee; their report on matters that they considered to be significant to the financial statements is set out on pages 29 to 31.

Capacity Market payments

Description of risk	How the scope of my audit responded to the risk
On 15 November 2018, the European Court of Justice (ECJ) annulled the July 2014 decision by the European Commission (EC) to grant State aid clearance to the UK Capacity Market. This judgement resulted in a *Standstill Period* for the Capacity Market during which no capacity payments were to be made and no supplier charges were to be collected. On 25 October 2019 the company was given authority to restart its Capacity Market settlement services. As explained in Note 4.2.2 to the financial statements, this included the making of capacity payments (and collection of supplier charges) relating to the *Standstill Period*. Whilst I did not identify a significant risk of material misstatement in relation to the Capacity Market payments made by the company during the restart period, they were an area of focus for my audit.	I obtained a detailed understanding of the basis on which Capacity Market payments are made and the factors which affect the amounts to be paid (including the Capacity Market *Standstill Period* and subsequent restart) and used this information to construct my own expectation for Capacity Market expenditure. **Key observations** The financial statements recognise Capacity Market payments of £1,483 million which is in line with the expectation I generated. On this basis I am satisfied that the Capacity Market payments are appropriately recorded in the financial statements.

Application of materiality

I applied the concept of materiality in both planning and performing my audit, and in evaluating the effect of misstatements on my audit and on the financial statements. This approach recognises that financial statements are rarely absolutely correct, and that an audit is designed to provide reasonable, rather than absolute, assurance that the financial statements are free from material misstatement or irregularity. A matter is material if its omission or misstatement would, in the judgement of the auditor, reasonably influence the decisions of users of the financial statements.

Based on my professional judgement, I determined the overall materiality for the company's financial statements at £18.2 million. This is approximately 2% of the combined value of operational expenditure and Capacity Market payments made in respect of capacity supplied during the financial year. Retrospective Capacity Market payments relating to capacity supplied during the previous financial year were excluded from my calculation of materiality.

As well as quantitative materiality there are certain matters that, by their very nature, would if not corrected influence the decisions of users, for example, any errors reported in Directors' Remuneration Report. Assessment of such matters would need to have regard to the nature of the misstatement and the applicable legal and reporting framework, as well as the size of the misstatement.

I applied the same concept of materiality to my audit of regularity. In planning and performing audit work in support of my opinion on regularity and evaluating the impact of any irregular transactions, I took into account both quantitative and qualitative aspects that I consider would reasonably influence the decisions of users of the financial statements.

I agreed with the Audit, Risk and Assurance Committee that I would report to it all uncorrected misstatements identified through my audit in excess of £300,000, as well as differences below this threshold that in my view warranted reporting on qualitative grounds.

Responsibilities of the Directors for the financial statements

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for:

- the preparation of the financial statements and for being satisfied that they give a true and fair view;
- such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
- assessing the Company's ability to continue as a going concern, disclosing, if applicable, matters relating to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK).

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. Reasonable assurance is a high level of assurance but, is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs (UK), I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

I also provide those charged with governance with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, I determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. I describe these matters in my auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, I determine that a matter should not be communicated in my report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

In addition, I am required to obtain evidence sufficient to give reasonable assurance that the income and expenditure reported in the financial statements have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Audit scope

The scope of my audit was determined by obtaining an understanding of the entity and its environment, including entity-wide controls, and assessing the risks of material misstatement at the entity level.

Other Information

Directors are responsible for the other information. The other information comprises information included in the annual report, other than the parts of the Remuneration Report described in that report as having been audited, the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon. In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

I am specifically required to address the following items and to report uncorrected material misstatements in the other information, where I conclude that those items do not meet the following conditions:

- Fair, balanced and understandable: the statement given by the directors that the annual report and accounts taken as a whole are fair, balanced and understandable and provide the necessary information to enable users to assess the entity's performance, business model and strategy, is materially inconsistent with my knowledge obtained in the audit; or

- Audit, Risk and Assurance Committee reporting: the section describing the work of the Company Audit, Risk and Assurance Committee does not appropriately address matters communicated by me to the Audit, Risk and Assurance Committee.

I also have nothing to report in this regard.

Opinion on other matters prescribed by the Companies Act

Directors' remuneration

In my opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

I also report to you if, in my opinion, certain disclosures of directors' remuneration required have not been made. I have nothing to report arising from this duty.

The strategic and directors' reports

In my opinion, based on the work undertaken in the course of the audit, the information given in the Strategic and Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements and those reports have been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, I have not identified any material misstatements in the Strategic Report or the Directors' Report.

The corporate governance statement

In my opinion, based on the work undertaken in the course of the audit:

- the information given in the Corporate Governance report, in compliance with rules 7.2.5 and 7.2.6 in the Disclosure Rules and Transparency Rules sourcebook made by Financial Conduct Authority (the FCA Rules), in respect of internal control and risk management systems in relation to financial reporting processes, and about share capital structures, is consistent with the accounts and has been prepared in accordance with applicable legal requirements.

- rules 7.2.2, 7.2.3 and 7.2.7 of the FCA Rules about the Company's corporate governance code and practices and about its administrative, management and supervisory bodies and their committees have been complied with.

Based on my knowledge and understanding of the company and its environment obtained during the course of the audit, I have identified no material misstatements in this information.

Matters on which I report by exception

Adequacy of accounting records information and explanations received

I report to you if, in my opinion:

- adequate accounting records have not been kept, or returns adequate for my audit have not been received from branches not visited by my staff;

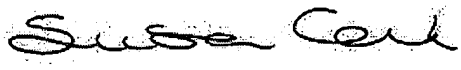
- the financial statements and the part of the Remuneration report to be audited are not in agreement with the accounting records and returns; or

- certain disclosures of directors' remuneration specified by law are not made;

- I have not received all of the information and explanations I require for my audit; or

- a corporate governance statement has not been prepared by the company.

I have nothing to report arising from this duty.



Susan Clark
Senior Statutory Auditor

For and on behalf of the
Comptroller and Auditor General
(Statutory Auditor)

National Audit Office
157-197 Buckingham Palace Road
London, SW1W 9SP

8 June 2020

Financial statements and notes to the accounts

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Statement of comprehensive income for the year ended 31 March

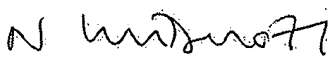
	Note	2020 £'000	2019 £'000
Other income	6	1,490,333	182,841
Other operating costs	7	(1,490,333)	(182,841)
Profit for the year		–	–
Other comprehensive income for the year		–	–
Total comprehensive income for the year		–	–

All operations are continuing operations.
The notes on pages 49 to 58 form part of these accounts.

Statement of financial position as at 31 March

	Note	2020 £'000	2019 £'000
Non-current assets			
Intangible assets	8	757	1,268
Current assets			
Levy and capacity payments receivable	9	12,172	984
Prepayments		33	21
Cash and cash equivalents	10	242,687	19,102
Total current assets		**254,892**	**20,107**
Total assets		**255,649**	**21,375**
Current liabilities			
Levy and capacity payments payables	11	(198,929)	(3,764)
Trade and other payables	12	(55,920)	(16,304)
Lease liabilities	13	(507)	(507)
Total current liabilities		**(255,356)**	**(20,575)**
Non-current liabilities			
Lease liabilities	13	(293)	(800)
Total non-current liabilities		**(293)**	**(800)**
Total liabilities		**(255,649)**	**(21,375)**
Net assets		**–**	**–**
Shareholders' equity and other reserves			
Share capital	14	–	–
Retained earnings		–	–
Total equity		**–**	**–**

The notes on pages 49 to 58 form part of these accounts.
The financial statements were approved by the board of directors on 4 June 2020 and signed on its behalf by:



Neil McDermott
Chief Executive Officer

George Pitt
Interim Chief Finance Officer

Statement of changes in equity for the year ended 31 March

	Share capital £'000	Retained earnings £'000	Total equity £'000
As at 31 March 2018	–	–	–
Share capital issued	–	–	–
Total comprehensive income for the year	–	–	–
As at 31 March 2019	–	–	–
Share capital issued	–	–	–
Total comprehensive income for the year	–	–	–
As at 31 March 2020	–	–	–

As at 31 March 2020 the company has one authorised Ordinary share issued and fully paid.
The notes on pages 49 to 58 form part of these accounts.

Statement of cash flows for the year ended 31 March

	Note	2020 £'000	2019 £'000
Cash flows from operating activities			
Profit for the year		–	–
Adjustments to reconcile profit before tax to net cash flows:			
Amortisation of intangible assets	8	511	511
Working capital adjustments:			
Increase in levy and capacity payments receivables	9	(11,188)	(640)
Increase in prepayments		(12)	–
Increase/(decrease) in levy and capacity payments payables	11	195,165	(69,585)
Increase/(decrease) in trade and other payables	12	39,616	(37,647)
Net cash (outflow)/inflow from operating activities		**224,092**	**(107,361)**
Cash flows from financing activities			
Decrease in borrowings		–	(7)
Repayment of lease liabilities	13	(507)	(507)
Net cash outflow from financing activities		**(507)**	**(514)**
Net increase/(decrease) in cash and cash equivalents in the year		**223,585**	**(107,875)**
Cash and cash equivalents at the beginning of the year		19,102	126,977
Cash and cash equivalents at the end of the year	10	**242,687**	**19,102**

The notes on pages 49 to 58 form part of these accounts.

Notes to the financial statements for the year ended 31 March 2020

1. Authorisation of financial statements

The financial statements of Electricity Settlements Company Ltd (the "company") for the year ended 31 March 2020 were approved and authorised for issue in accordance with a resolution of the directors on 4 June 2020.

The company is a company limited by shares, incorporated and domiciled in the UK. The company's registered office is at Fleetbank House, 2-6 Salisbury Square, EC4Y 8JX. The company is unlisted and wholly owned by the Secretary of State for Business, Energy and Industrial Strategy (the "shareholder") making it the company's ultimate controlling party.

1.1 Principal activities

The company has been established to act as the Settlement Body for the Capacity Market. The company will also undertake such other activities that the board considers to be consistent with the company's functions, duties, obligations and constitution.

2. Accounting policies

2.1 Basis of preparation

These financial statements are presented in pounds sterling and all values are rounded to the nearest thousand pounds (£'000).

The financial statements of the company have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and applied in accordance with the provisions of the Companies Act 2006 applicable to companies reporting under IFRS.

These accounts have been prepared under the historical cost convention as modified for the treatment of financial instruments.

The Capacity Regulations as identified below are defined hereafter as the "Regulations":

i. The Electricity Capacity Regulations 2014 as amended;

ii. The Electricity Capacity (Supplier Payment etc.) Regulations 2014 as amended.

2.2 Going concern

The directors have a reasonable expectation that the company has adequate resources to continue to operate for the foreseeable future. The financial statements are, therefore, prepared on a going concern basis.

In forming this view, the directors note that the company:

i. applies prudent financial management in order to ensure that its commitments are accommodated within the timing of its collection of its settlement costs levy;

ii. undertakes a robust and detailed annual business planning and budgeting process to establish its operational costs requirements for each financial year;

iii. has considered the potential impact of credit risk and liquidity risk detailed in note 3; and

iv. is exposed to minimal cash flow risk through Capacity Market transactions as a result of the statutory 'pay when paid' mechanism explained below.

The day to day operational costs of the company are funded by electricity suppliers under the Capacity Market "settlement costs levy" which is set by the Regulations.

The settlement costs levy is reset by new amending Regulations and has currently been set for the next year (to March 2021).

The directors note the risk that the total settlement costs levy set for a year will be insufficient or that a timing mismatch might arise between the time when monies are raised by the levy and the time when monies are required to meet a spend commitment made by the company.

During the course of a year, the company may, where it identifies that there is likely to be a shortfall in the collection of the settlement costs levy against its requirements, request BEIS to support an in-year adjustment to the applicable levy rate. Such an adjustment would be subject to public consultation and the making of new regulations in accordance with the same process that has applied to the setting of the

annual settlement costs levy. The company can also request a working capital loan from BEIS if there is a shortfall in its operating cash flow.

The requirement to pay capacity payments to Capacity Providers is set out in the Regulations. The payments to be made to Capacity Providers are funded by suppliers under the Regulations. It should be noted that the Regulations state that the company's obligation is to pay when paid (i.e. the company has no obligation to pay the Capacity Providers until it receives adequate funds from suppliers to perform its obligation).

As part of the directors going concern assessment a significant risk that has been considered is the impact of the Covid-19 outbreak. As the company's operational costs are funded by electricity suppliers through the settlement costs levy there is an increased risk as many suppliers will now be facing significant uncertainty regarding the level of electricity demand. Although it is extremely difficult to forecast the extent of the impact (and duration) of the pandemic, the directors believe that the fixed nature of settlement costs levy, pay when paid mechanism for capacity payments, the option to request a working capital loan from BEIS and the potential for requesting BEIS to support an in-year adjustment to the applicable settlement costs levy rate, means that the company will be able to mitigate this risk.

2.3 Settlement costs levy income
Under the Regulations the company is entitled to recover its operational costs through the settlement costs levy on suppliers referred to above. The total amount of the levy has been set for the next year. Any surplus at the year-end is reimbursed to suppliers by issuing credit notes against the following year's levy and is classified as part of levy and capacity payments payables within current liabilities.

Settlement costs levy income is recognised as 'other income' in the financial year to which it relates and is presented net of any settlement costs levy repayable to suppliers.

ESC continues to apply its accounting policy of recognising the income to match operational costs which follows the IFRS Conceptual Framework for Financial Reporting.

The settlement costs levy is collected through monthly invoices. The settlement services provider, EMRS, administers the collection process.

2.4 Capacity Market supplier charge income
Capacity Market supplier charge income relates to the charges which electricity suppliers are required to pay under the Regulations to meet the cost of funding capacity payments. Under the Regulations, the company is entitled to collect the Capacity Market supplier charge before making capacity payments. The total amount of the Capacity Market supplier charge is set before the start of the delivery year based on suppliers' forecasts. The Capacity Market supplier charge is re-determined in monthly and yearly reconciliations. Re-determination of the Capacity Market supplier charge takes the following into account:

i. Transition from forecast to actual meter data; and
ii. Adjustments to capacity payments payable.

Any surplus Capacity Market supplier charge at the year-end is classified as part of levy and capacity payments payables within current liabilities.

2.5 Capacity payments
Capacity payments are payments to the Capacity Providers under the Regulations for their commitment to meet a capacity obligation during a delivery year. Total capacity payments are based on the capacity cleared price achieved in the auction in respect of which the Capacity Agreement was awarded. Capacity payments are split into 12 monthly payments which are weighted to reflect the seasonal variation of electricity demand in Great Britain during a year.

Following a transmission system stress event, Capacity Providers may be eligible for additional payments or subject to financial penalties, depending on whether they exceed their capacity obligations (over-deliver) or fail to meet them (under-deliver).

2.6 Recharges
The company is recharged a proportion of costs which it shares with Low Carbon Contracts Company Ltd (LCCC). LCCC is a sister arm's length body owned by the Secretary of State for Business, Energy and Industrial Strategy and is responsible for acting as the counterparty to Contracts for Difference (CFDs). In order to maximise operational cost efficiency, LCCC provides certain services to the company and makes certain payments on its behalf. Typically this includes common costs such as staff costs, shared IT infrastructure and the use of shared resources and facilities. The recharge also includes costs incurred on those activities that allow the company to perform its functions in relation to the Capacity Market.

This recharge is based on an estimate of the time LCCC's employees will spend on the company's activities during the relevant financial year, together with an appropriate

allocation of overhead costs (including rent, service charge, IT infrastructure and telephony support) and a 'use of asset' charge. It also includes a proportion of the salaries of the board members who divide their time between the two companies. LCCC undertakes these activities on behalf of the company and the company's board retains responsibility and accountability for the quality and cost of services provided by LCCC.

The company and LCCC are part of the same VAT group, therefore no VAT is charged on costs recharged by LCCC. The company's income is outside the scope of VAT so it will be unable to recover its input VAT on any of its expenditure.

2.7 Government grants
Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the company will comply with all the attached conditions.

2.8 Financial assets
The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. Management determines the categorisation of financial assets at initial recognition and re-evaluates this designation at each reporting date.

2.8.1 Classification
Financial assets, at initial recognition, are classified at fair value through profit or loss and subsequently measured at amortised cost.

2.8.2 Recognition and measurement
Financial assets at amortised cost are subsequently measured using the effective interest rate (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The only financial asset held by the company at the reporting date is cash and cash equivalents.

For the purposes of presentation in the statement of cash flows, cash and cash equivalents includes cash held at bank and is subject to an insignificant risk of change in value.

2.9 Financial liabilities

2.9.1 Recognition and measurement
Financial liabilities are classified, at initial recognition, as other liabilities (i.e. finance lease, borrowings and payables as appropriate).

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

2.9.1.2 Other financial liabilities
After initial recognition, other liabilities are subsequently measured at amortised cost using the EIR method (if material). Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of comprehensive income.

2.9.2 Derecognition of financial liabilities
A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of comprehensive income.

2.10 Intangible assets
Intangible assets are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses (if any). Intangible assets have finite lives and are amortised over their useful economic life, or assessed for impairment whenever there is an indication that the asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at the end of each reporting period.

Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the statement of comprehensive income in the expense category that is consistent with the function of the intangible assets.

Intangible assets are amortised over the following periods:

	Years
Settlement System	5
Other IT Software	5

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the

carrying amount of the asset and are recognised in the statement of comprehensive income when the asset is derecognised.

In accordance with IFRS 16 the settlement system asset is deemed to be a right-of-use asset.

2.11 Leases

2.11.1 Application of IFRS 16 Leases

In the current year the company, for the first time, has applied IFRS 16 *Leases*. The date of initial application of IFRS 16 for the company is 1 April 2019.

The company has applied IFRS 16 using the modified retrospective approach and accordingly the information presented for 2019 has not been restated. It remains as previously reported under IAS 17 and related interpretations.

2.11.2 New definition of a lease

The company has made use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, on transition, the company applied IFRS 16 only to contracts that were previously identified as leases.

The change in definition of a lease mainly relates to the concept of control. IFRS 16 determines whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time in exchange for consideration.

The company applies the definition of a lease and related guidance set out in IFRS 16 to all lease contracts entered into or modified on or after 1 April 2019.

2.11.3 Company as a lessee

At inception of a contract, the company assesses whether a contract is, or contains, a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The company previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the company.

Under IFRS 16 the company recognises a right-of-use asset and a corresponding lease liability with respect to all lease agreements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets.

2.11.4 Measurement of leases liabilities

Lease liabilities are initially measured at the present value of the contractual lease payments that are not paid at the commencement date, discounted (if material) by using the rate implicit in the lease. If this rate cannot be readily determined, the company uses its incremental borrowing rate. Variable lease payments are only included in the measurement of the lease liability if they depend on an index or rate. In such cases, the initial measurement of the lease liability assumes the variable element will remain unchanged throughout the lease term.

2.11.5 Measurement of right-of-use assets

Right-of-use assets are initially measured at the amount of the lease liability, reduced for any lease incentives received, adjusted for any lease payments made at or before the commencement date, and increased for any initial direct costs. Whenever the company incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located, or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognised and measured under IAS 37. The costs are included in the related right-of-use asset.

Right-of-use assets are amortised to the earlier of the end of the useful life of the right-of-use asset or the lease term using the straight-line method as this most closely reflects the expected pattern of consumption of the future economic benefits. The amortisation starts at the commencement date of the lease.

The company applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in note 2.12.

2.11.6 Leases classified as operating leases under IAS 17

On transition and during the year the company had no operating leases. As a result, there has been no impact of adopting IFRS 16 on the company's financial statements in respect of operating leases.

2.11.7 Leases classified as finance leases under IAS 17

Lease of the company's settlement system asset was previously classified as a finance lease under IAS 17. For finance leases the carrying amount of the right-of-use asset and the lease liability at 1 April 2019 were determined at the carrying amount of the lease asset and lease liability under IAS 17 immediately before that date.

The settlement system asset remains classified under intangible assets but is appropriately disclosed as a right-of-use asset.

2.11.8 Financial impact of adopting IFRS 16
There was no financial impact of adopting IFRS 16 on the company's financial statements.

2.12 Impairment of non-financial assets
Intangible assets are only subject to amortisation to the extent that they are available for use. Assets, which are not available for use, are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. At each reporting date, the company reviews the carrying amounts of its intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of any impairment loss.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units). Impairment losses are charged to the statement of comprehensive income and prior impairments of non-financial assets are reviewed for possible reversal at each reporting date.

2.13 Provisions
Provisions are recognised when the company has a present obligation (legal or constructive) as a result of a past event, that can be reliably measured, and it is probable that an outflow of economic benefits will be required to settle that obligation.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation. The accounting policy allows for an increase in the provision due to the passage of time (time value of money) which would be recognised as an interest expense.

2.14 Segmental reporting
The company operates solely within the UK and within one business segment; hence no segmental reporting is required. This is consistent with the internal reporting provided to the directors of the company, who are considered the company's chief operating decision makers.

2.15 Bid bond collateral
In order to enter Capacity Market auctions, applicants must lodge bid bond collateral with the company where, on Prequalification Results Day, those applicants receive a notice from National Grid, as transmission System Operator, that states Prequalification of their Capacity Market Unit(s) is conditional on providing bid bond collateral.

Bid bond collateral will be held by the company until one of the following triggers set out in the Regulations occurs:

- the relevant Capacity Market auction is delayed;
- the potential Capacity Provider notifies that it no longer intends to bid in the relevant Capacity Market auction;
- the Capacity Market auction takes place and the potential Capacity Provider does not win a Capacity Agreement; or
- the Capacity Provider demonstrates capacity in the manner required by the Regulations.

Bid bond collateral may not be returned to the Capacity Providers if the Capacity Agreement is terminated.

When a Capacity Agreement is terminated, either a termination fee becomes payable or bid bond collateral is drawn down. These amounts are passed onto the Government's Consolidated Fund via BEIS and are not included in the statement of comprehensive income.

3. Financial risk management

3.1 Financial risk management and financial risk factors
Due to the nature of its operational and financial arrangements the company is not exposed to any significant financial risk. The financial risk is minimal by virtue of the company's levy funding arrangements with licensed suppliers, which are set out below.

3.2 Credit and liquidity risk
Under the legislation there is an obligation placed on licensed suppliers to fund in advance, via payment through a levy, the capacity payment obligations as they crystallise. The company has no obligation to pay the Capacity Providers until it receives adequate funds from suppliers to perform its obligations.

As the Capacity Market settlement timetable is structured such that monies to be received by the company are invoiced and collected prior to the issue of credit notes and payments out from the company, the liquidity risk is minimal.

4. Accounting judgements, estimates and assumptions

The preparation of the company's financial statements requires management to make judgements, estimates and assumptions that

affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and other factors, including expectations or future events that are believed to be reasonable under the circumstances. The results form the basis of making judgements about carrying values of assets and liabilities that are not readily apparent from other sources.

Revisions to accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

4.1 Estimates

The assumptions and estimation uncertainties at the reporting date are not deemed to have a significant risk of resulting in a material adjustment to the carrying amounts of the assets and liabilities in the next financial year. The company based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the company. Such changes are reflected in the assumptions when they occur.

4.1.1 Estimating useful lives and residual values of intangible assets

At each reporting date, the useful lives and residual values of intangible assets are reviewed. Assessing the appropriateness of useful life and residual value estimates requires the company to consider a number of factors such as the technological advancement, expected period of use of the asset by the company, and expected disposal proceeds (if any) from the future sale of the asset. An incorrect estimate of the useful life or residual value will affect the amortisation expense recognised in the statement of comprehensive income and the asset's carrying amount.

4.2 Significant judgement

Management has made the following judgement in applying the company's accounting policy:

4.2.1 Capacity agreements

Capacity Agreements are arrangements between National Grid (as System Operator) and Capacity Providers. They require the Capacity Provider to be ready to provide a certain amount of capacity in their applicable delivery years when called upon to do so by National Grid.

The company is not party to Capacity Agreements but is only responsible for acting as an administrator for the settlement process. A Capacity Market obligation for the company only arises when settlement levy payments are received from electricity suppliers (i.e. only pay when paid) and the Capacity Provider delivers the required capacity in line with the capacity arrangements. As a result no provision is raised in the statement of financial position and Capacity Agreements are not classified as financial instruments because the company's role is driven by statute rather than contract.

4.2.2 Capacity Market restart

On 15 November 2018, the European Court of Justice (ECJ) annulled the European Commission (EC) decision of July 2014 to grant State aid clearance to the Capacity Market. The ruling resulted in a 'Standstill Period' for the Capacity Market in which no State aid could be paid out pending the EC's redetermination. As a result of this the company was not able to make any Capacity Market payments during the 'Standstill Period' and, additionally, no supplier charge was collected.

The EC appealed the ECJ's decision and, separately, also undertook a formal investigation into the UK's notification of the Capacity Market scheme in order to inform its 're-decision' on whether to grant State aid clearance. On 24 October 2019, BEIS was informed by the EC that it had completed its State aid investigation into the Capacity Market and that the Capacity Market scheme complies with EU State aid rules. On 25 October 2019, BEIS notified the company and National Grid to restart their respective Capacity Market activities.

Following the successful restart of the Capacity Market circa £1.17bn of invoices were raised to suppliers in November 2019 relating to the Standstill Period. This in turn enabled payment of the required £1.15bn to Capacity Providers (that had been deferred as a result of the Standstill Period).

No Capacity Market supplier charge income or respective capacity payment expense was recognised in the prior year financial year for the 2018/19 Delivery Year due to suspension of the Capacity Market. Out of the £1.15bn capacity payment made for the Standstill Period, £0.99bn related to 2018/19 Delivery Year of which £0.54bn would have been recognised in prior financial year ended 31 March 2019 had there been no Standstill. The collection of retrospective supplier charge and capacity payment made for the 2018/19 Scheme Delivery Year are recognised as income and expense, respectively, in the current financial year.

5. New standards, amendments and interpretations applicable to the company but not yet adopted

New standards and interpretations effective for periods commencing on or after 1 January 2020 and therefore applicable to the company for the year ending 31 March 2020 are listed below:

- Amendments to IAS 1 *Presentation of financial statements* and IAS 8 *Accounting policies, changes in accounting estimates and errors*, definition of material
- Amendments to the *Conceptual Framework for Financial Reporting*

The adoption of the above standards and interpretations are not expected to have any impact on the company's accounting policies or have any other material impact on the financial position or performance of the company.

6. Other income

	2020 £'000	2019 £'000
Settlement costs levy income	7,554	7,629
Less: amount repayable to suppliers	(611)	(387)
Net settlement costs levy income	**6,943**	**7,242**
Capacity Market supplier charge income	1,483,310	175,599
Late payment interest	80	–
Other income	**1,490,333**	**182,841**

Capacity Market supplier charge income amounting to £0.99bn for the 2018/19 Delivery Year has been recognised in the current year due to the suspension of the Capacity Market (see note 4.2.2).

7. Other operating costs

	2020 £'000	2019 £'000
Capacity payments	1,483,310	175,599
Operational settlement costs	3,522	3,314
Costs recharged by LCCC	2,756	2,667
Amortisation	510	511
Legal, professional and consultancy	107	640
Auditor's remuneration	39	35
Miscellaneous costs	89	75
Other operating costs	**1,490,333**	**182,841**

The Delivery Year for the Capacity Market runs from October 1st to September 30th of each year.

The capacity payments for each Delivery Year (DY) are summarised in the table below:

Capacity Market Payments	FY 2019/20	FY 2018/19
Transitional Arrangements DY 2018/19	£nil	£5.6m
Early Capacity Auction DY 2018/19	£nil	£170.0m
T-1 Capacity Auction DY 2018/19	£33.4m	£nil
T-4 Capacity Auction DY 2018/19	£953.9m	£nil
T-1 Capacity Auction DY 2019/20	£1.5m	£nil
T-4 Capacity Auction DY 2019/20	£494.5m	£nil
Total	**£1,483.3m**	**£175.6m**

Capacity payment expenses for the 2018/19 Delivery Year have been recognised in current year due to the suspension of the Capacity Market (see note 4.2.2).

8. Intangible assets

	Settlement System £'000	Other IT Software £'000	Total £'000
Cost			
As at 31 March 2018	2,538	15	2,553
Additions during the year	–	–	–
As at 31 March 2019	2,538	15	2,553
Additions during the year	–	–	–
As at 31 March 2020	**2,538**	**15**	**2,553**
Amortisation			
As at 31 March 2018	766	8	774
Charge for the year	508	3	511
As at 31 March 2019	1,274	11	1,285
Charge for the year	508	3	511
As at 31 March 2020	**1,782**	**14**	**1,796**
Net book value as at 31 March 2019	1,264	4	1,268
Net book value as at 31 March 2020	**756**	**1**	**757**

The company leases the settlement system from BEIS. The settlement system went live in September 2016. The lease term is 5 years which is the period over which the asset will be amortised.

In accordance with IFRS 16 the settlement system asset is deemed to be a right-of-use asset.

9. Levy and capacity payments receivable

	2020 £'000	2019 £'000
Capacity Market supplier charge	9,084	–
Capacity providers receivable	1,687	–
Termination charges receivable	826	–
Settlement costs levy	575	984
Total levy receivable	**12,172**	**984**

Capacity Market supplier charge receivable relates to unpaid Capacity Market supplier charge invoices (i.e. suppliers ceased trading). Balance recoverable through the mutualisation process.

10. Cash and cash equivalents

	2020 £'000	2019 £'000
Cash at bank	186,849	3,137
Bid bond collateral	28,547	10,215
Suppliers' credit cover	27,291	5,750
Total cash and cash equivalents	**242,687**	**19,102**

For the purpose of the statement of cash flows, cash and cash equivalents comprise cash at bank, suppliers' credit cover and bid bond collateral as stated above. Suppliers' credit cover and bid bond collateral are restricted cash balances and relate to credit cover provided by the Capacity Providers and electricity suppliers. No interest is earned on suppliers' credit cover and interest earned on bid bond collateral is returned to the Capacity Providers.

Cash at bank has increased significantly in the period due to increased Capacity Market supplier charge income received as a result Capacity Market restart (see note 4.2.2).

11. Levy and capacity payments payables

	2020 £'000	2019 £'000
Capacity payments	161,314	-
Capacity Market supplier charge	35,591	2,407
Settlement costs levy	1,198	1,357
Termination charges payable	826	-
Total levy and capacity payments	**198,929**	**3,764**

Capacity payments payables are the amounts due to the Capacity Providers under the Regulations for their commitment to meet a capacity obligation during a delivery year. Total capacity payments are based on the capacity cleared price achieved in the auction that the Capacity Agreement was awarded.

The settlement costs levy payable relates to the difference between the operational costs which have been collected from electricity suppliers during 2019/20, based on estimated spend for the year, and the operational costs actually incurred during the year. The difference is refunded to suppliers in the following financial year.

The Capacity Market supplier charge payable relates to the difference between Capacity Market supplier charges which have been collected from electricity suppliers during the 2019/20 financial year, based on estimated payments to the Capacity Providers, and the actual payments made during the year. The difference is refunded to suppliers in the following financial year.

Termination charges payable relate to the relevant charges receivable, when a Capacity Agreement is terminated, that are payable to the Government's Consolidated Fund.

12. Trade and other payables

	2020 £'000	2019 £'000
Bid bond collateral	28,547	10,215
Suppliers' credit cover	27,291	5,750
Accruals and other payables	82	39
Trade payables	-	300
Total trade and other payables	**55,920**	**16,304**

Bid bond collateral relates to credit cover provided by the Capacity Providers.

Bid bond collateral and supplier's credit cover balances have increased in the period as a result Capacity Market restart (see note 4.2.2).

13. Lease liabilities

	£'000
As at 31 March 2018	1,814
Repayment of lease liability	(507)
As at 31 March 2019	1,307
Repayment of lease liability	(507)
As at 31 March 2020	**800**

Maturity analysis:

	2020 £'000	2019 £'000
Less than 1 year	507	507
Between 1 and 5 years	293	800
As at 31 March	**800**	**1,307**

In accordance with IFRS 16 the description of this liability has changed from 'finance lease obligations' in previous periods to 'lease liabilities'.

The lease liability is held in respect of the settlement system right-of-use asset which has been funded by BEIS through EMRS, a wholly owned subsidiary of ELEXON Limited.

14. Share capital

	Number
Authorised shares	
Ordinary share capital £1 each	1
	£
Ordinary share capital issued and fully paid:	
As at 31 March 2018 and 31 March 2019	1
Share capital issued during the year	-
As at 31 March 2020	**1**

15. Related party transactions

The following table provides the total amount of transactions that have been entered into with related parties for the relevant financial year:

	Services from related parties £'000	Amounts owed by related parties £'000	Amounts owed to related parties £'000
Entities with significant influence:			
2019			
LCCC	2,667	–	–
BEIS	–	–	1,307
2020			
LCCC	2,756	–	–
BEIS	–	–	800

Services from LCCC comprise shared costs of premises, staff and directors' payroll costs, IT infrastructure and use of assets which are incurred in the first instance by LCCC but are then recharged to the company based on the estimated usage of those services. Amounts owed to BEIS relate to obligations under the finance lease relating to the settlement system asset.

16. Financial assets and liabilities

Financial assets

	Note	2020 £'000	2019 £'000
Cash and cash equivalents	10	242,687	19,102
Total financial assets		**242,687**	**19,102**

Financial liabilities

	Note	2020 £'000	2019 £'000
Trade and other payables	12	55,920	16,304
Lease liabilities	13	800	1,307
Total financial liabilities		**56,720**	**17,611**
Total current		56,427	16,811
Total non-current		293	800
Total financial liabilities		**56,720**	**17,611**

17. Events after the reporting period

There are no post balance sheet events which have a material impact on the company's financial results.

Glossary

BEIS	Department for Business, Energy and Industrial Strategy.
BSC	Balancing and Settlement Code (BSC) is a legal document which defines the rules and governance for the balancing mechanism and imbalance settlement processes in respect of the wholesale electricity market in Great Britain. Find it at: https://www.elexon.co.uk/bsc-and-codes/
Capacity Agreement	A capacity agreement is a regulatory and rule based arrangement between National Grid, as System Operator, and a successful applicant in a Capacity Market auction. The capacity agreement provides a regular retainer payment to the successful applicant or "capacity provider".
Capacity Auction	At a Capacity Auction, applicants who offer the lowest bid can win a capacity agreement. A Capacity Auction relates to delivery of capacity approximately four years ahead (T-4). For instance, the capacity agreements resulting from the 2014 T-4 Capacity Auction will require capacity to be delivered in the Delivery Year commencing 2018/19.
Capacity Market	The Capacity Market has been designed by BEIS (formerly DECC) to offer capacity providers who have been awarded capacity agreements via an auction with a revenue stream, with the aim of ensuring they are available to contribute to security of supply at least cost to consumers. Capacity providers can be new or existing generators, electricity storage providers and significant users of electricity who provide voluntary demand reductions.
Capacity Market Regulations	Capacity Market Regulations means the Electricity Capacity Regulations 2014 (as amended) and the Electricity Capacity (Supplier Payment etc.) Regulations 2014 (as amended).
Capacity Market Settlement Body	Means the entity appointed under the Capacity Market Regulations 2014 to obtain supplier charges and make capacity payments and to have overall accountability and control of the Capacity Market settlement process.
Capacity Market Stress Event	A System Stress Event that has occurred at least four hours after a Capacity Market Notice has been issued and post-event analysis by NG ESO has confirmed that a System Stress Event has occurred.
Capacity Provider	A capacity provider is the holder of a capacity agreement with National Grid (as System Operator). Capacity providers can be new or existing generators, electricity storage providers and significant users of electricity who provide voluntary demand side reductions (Demand Side Response). Capacity providers provide capacity under either a capacity agreement resulting from a Capacity Market auction or from a Transitional Arrangement Auction.
Delivery Partners	Organisations involved in delivering the Capacity Market, namely ESC, and (EMR) Delivery Body, Electricity System Operator, National Grid, and Ofgem.
Delivery Year	This is a defined term within the Capacity Market rules referring to the obligation period of a capacity agreement being 1 October to 31 March of the following year.

Demand Side Response	Demand Side Response helps to manage the demand for electricity. It involves changing the usage patterns of electricity users (the "demand side") in response to incentives. It is used to match supply with demand when unpredictable fluctuations occur and provides a mechanism through which demand can be reduced in peak times when system capacity is tight, thereby minimising the amount of additional generation capacity being brought onto the grid. Demand Side Response is seen as having the potential to help to lower consumer bills, electricity system costs and carbon emissions produced by traditional peaking plant, such as oil, coal and gas-fired generation.
ECJ	Means the General Court of the Court of Justice of the European Union. The General Court annulled the relevant scheme Approval on 15 November 2018 (Case T–793 14).
EMRS	EMR Settlement Ltd (EMRS) is a wholly owned subsidiary company of ELEXON Ltd.* It is the settlement services provider under a contract with LCCC to manage the operation of the settlement system. (*ELEXON website: www.elexon.co.uk/)
Energy Data Taskforce	The Energy Data Taskforce was established by government and Ofgem to develop a set of recommendations for how industry and the public sector can work together to facilitate greater competition, innovation and markets in the energy sector through improving data availability and transparency.
ESC	Electricity Settlements Company Ltd.
ESO	The Electricity System Operator (ESO), a ring-fenced part of National Grid, includes the 'EMR Delivery Body', which manages CFD and Capacity Market auctions.
LCCC	Low Carbon Contracts Company Ltd.
Meter assurance	Under the Capacity Market, capacity providers with complex or non-BSC metering arrangements need to undergo metering checks in accordance with ESC meter standards guidance. Find it at https://www.electricitysettlementscompany.uk
Ofgem	Office of Gas and Electricity Markets, a non-ministerial government department and an independent national regulator.
Scheme Approval	State aid approval (SA.35980) granted by the European Commission in July 2014 for the main Capacity Market scheme.
Secretary of State	Means the Secretary of State for Business, Energy and Industrial Strategy, our shareholder.
settlement system	The settlement system used to settle all monies collected from suppliers to make payments to Capacity Market providers, and to settle all monies collected from Capacity Market providers which are payable to suppliers (or, in the case of the termination payments, to BEIS).
Standstill	Means the situation affecting the Capacity Market as a result of the annulment of the relevant scheme Approval on 15 November 2018. The full operation of the Capacity Market therefore cannot take place during the Standstill Period, and the Capacity Market is termed in "standstill" for this period.
Standstill Period	Standstill Period means the period beginning on 15 November 2018 and ending on the date on which the deferred capacity payment trigger event or the agreement termination trigger event occurs (as further described in the Supplier Payment Regulations).
Standstill Regulations	Refers to the Electricity Capacity (No. 1) Regulations 2019, http://www.legislation.gov.uk/uksi/2019/862/contents/made

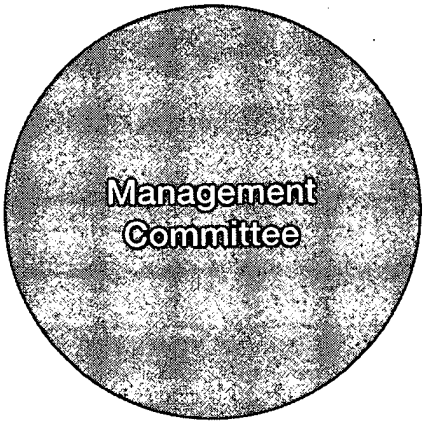
State aid	State aid is any advantage granted by public authorities through state resources on a selective basis to any organisations that could potentially distort competition in the European Union.
Supplier Payment Regulations	Supplier Payment Regulations means the Electricity Capacity (Supplier Payment etc.) Regulations 2014 (as amended), including as amended by the By Electricity Capacity (No. 1) Regulations 2019). http://www.legislation.gov.uk/uksi/2014/3354/contents/made
System Operator	Organisation licenced by Ofgem to operate the GB electricity system, a role currently held by National Grid Plc. The electricity System Operator's current responsibilities include balancing the electricity system, running electricity capacity auctions, coordinating and administering aspects of industry rules and codes and supporting efficient transmission network development.
Voluntary Supplier Arrangement	Voluntary Supplier Arrangement means the arrangement provided by ESC under which it will accept and hold payments made, on a voluntary basis, by suppliers during the Standstill Period. All such payments are made by suppliers and received and held by ESC on the basis of the terms and conditions published by ESC and in accordance with the new Capacity Market regulations.

This was the management committee as at 04.06.2020.

Neil McDermott
Chief Executive Officer

George Pitt
Interim Chief Finance Officer

Ruth Herbert
Director of Strategy & Development



Claire Williams
Director of Legal & Company Secretary

James Rushton
Director of Scheme Delivery

Cynthia Duodu
Director of People & Organisational Development

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